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**ECONOMIC AFFAIRS**

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4 September 1985

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METHODOLOGIES OF WHOLESALE PRICE FORMATION SCRUTINIZED

Improving Price Formation

Moscow IZVESTIYA AKADEMII NAUK SSSR: SERIYA EKONOMICHESKAYA in Russian No 2, Mar-Apr 85 pp 3-15

[Article by V.A. Yefremov: "Important Directions in Improving the Economic Mechanism of Managing Socialist Production"]

/Text/ The article examines questions of improving price formation in a way that will give prices realistic functions in stimulating the increased efficiency of social production, accelerating scientific-technical progress in the national economy, and conserving material and labor expenditures. A number of practical recommendations are made in this area.

The June 1983 CPSU Central Committee Plenum stated that "We have still not studied the society in which we live and work to the proper degree nor completely disclosed the patterns, especially economic ones, which are characteristic of it" [2]. Among the problems which demand in-depth scientific study on both the theoretical and applied levels are questions of improving methods of managing the socialist economy in order to insure the continued upsurge in social production. Today this is one of the key tasks of converting the economy to the intensive path of development -- a demand formulated in the decisions of the 24th-26th CPSU congresses and subsequent Plenums of the party Central Committee.

Until recently the main ideas for improving the system of managing production were based on the proposition that conditions for sharply increasing production efficiency could be insured only by expanding the economic mechanism's stimulative measures for affecting the results of enterprise (sector) work and eliminating barriers and restrictions imposed on their activity by the demands of centralized planning. Characteristic in this regard is the period of the 1960's when direct control by planning organs over the processes of forming expenditures was abolished under the influence of these arguments. Prime cost ceased to be a planned and report indicator and was shifted to the category of estimated indicators. The profitability norm in prices for output of industry increased two or three-fold. Methods for setting prices began to be improved in such a way that profit increasingly

depended on the consumer (qualitative) features of output. The system of markups (supplementary payments) on prices for the technical (technological) level of output became widespread. And all this occurred against a background where most of the losses of existing production facilities were being immediately eliminated during the 1967 wholesale price review (the total increase in the level of wholesale prices was 20 billion rubles). Favorable preconditions were created for stimulating the cost-accounting activity of enterprises (sectors), insuring their material interest in increasing labor productivity, and reducing material and labor expenditures through incorporating and introducing progressive equipment and technology for manufacturing output into production.

Nonetheless, the problems posed were still not fully resolved. The insufficiently high technical (technological) level of production remained the main bottleneck in the economy's development in the subsequent period. As the 18 August 1983 CPSU Central Committee and USSR Council of Ministers decree entitled "On Measures to Accelerate Scientific-Technical Progress in the National Economy" indicated, accelerating the rate of updating existing equipment and intensifying scientific-technical progress require taking the most decisive and immediate measures. The fulfillment of this decree should eliminate the situation where cases of using materiel and equipment (even whole enterprises) which are not only obsolete but also long since wornout and which often actually "belong in a museum" still occur in the epoch of the scientific-technical revolution and when production is being updated and re-equipped at an accelerated rate [4, 27 October]. The present state of affairs where managers of enterprises and management links of sectorial production facilities consider introducing the achievements of science and technology an obligation imposed by the directive nature of national economic plan assignments rather than a natural economic necessity leads to a situation where utilizing these achievements in production can only be characterized as "advancing scientific-technical progress in a resistant medium" [4, 15 May]. And this occurs in conditions where, according to specialists' evaluations, "the consequences of the scientific-technical revolution in the coming decades envision discoveries and innovations whose results will surpass everything we have known up to this point" [5].

Experience confirms that the development of production in conditions of any socioeconomic formation has been based not so much on elements of stimulation as on measures of economic compulsion which force each participant in social production to act in accordance with objective economic laws. One of the levers of the system of economic compulsion is prices, the level of which has not only dictated the costs that are objectively tolerable for society but (through them) the parameters of production as well: labor productivity; output quality; the degree of organizational and technical efficiency of the technological processes and the like being used and conforming to the final economic goal of development. When these parameters deviated from the norms prescribed by the level of prices, economic sanctions would come into play and objectively compel the elimination of identified discrepancies; one way this was done was by resolving the question of the position of particular participants in production within the general system of the organization of the social economy.

Of course, our present prices do not have these qualities nor, consequently, the conditions for forming the socialist type of economic compulsion mechanism which, on new social bases and in combination with measures of material and moral incentive already worked out by economic science and practice, would properly solve the problems of increasing production efficiency.

In recent years a number of measures have been taken to straighten out the price system in the national economy. The most important of these was the 1982 wholesale price reform which was to insure the necessary profitability of cost-accounting activity of industry and especially the sectors of fuel-energy and raw material complexes. There was reason to assume that improving the wholesale price system by increasing their general level would enable this goal to be met. However, the results of economic activity confirm that this has not yet been accomplished. The lack of profits in the coal industry, elimination of whose losses was in fact the basic reason for carrying out the 1982 wholesale price reform, amounted to millions of rubles the year the new price lists were introduced. It may be expected that after 1985 another sector for whom the review of prices was carried out -- the logging sector -- will join the category of sectors subsidized by the government

Prices for coal and lumber are the basis for forming price levels for output of the fuel-energy and raw material complex sectors while the latter serve as the base for constructing the entire system of prices in the national economy. The present unprofitableness of coal mining not only signals a certain defect in the current price system but to a certain degree poses the issue of another wholesale price reform in the future in order to insure cost-accounting conditions of activity for the coal industry."<sup>1</sup>

Analysis of the possible consequences of raising prices confirms that planning practices may be confronted with a case where the increase in wholesale prices will become the main reason for increased prime cost; increased prime cost in turn demands further increases in wholesale prices and will ultimately lead to higher prices in the entire economy. Of course, increased production efficiency, which is the determining goal of the country's economic development as formulated in the decisions of the 24th-26th CPSU congresses and subsequent Plenums of the party Central Committee, is objectively incompatible with these processes.

In order to solve the problem of increasing production efficiency, just the opposite is needed: a reduction rather than an increase in prices, and on the basis of general stimulation of scientific-technical progress and a rise in the technical and organizational level of production. The main direction of the search in this area is seen in intensifying control over the processes of forming expenditures in the national economy, especially during the stage of creating and incorporating new equipment. The following example attests to the degree to which the existing principles of price formation help fulfill this function.

At one time a plan for the wholesale price of a pilot turbine for an atomic power plant with a 1,000 megawatt capacity, ratified by the USSR Ministry of Heavy and Transport Machine Building, was developed and presented to price formation organs by the Kharkov Turbine Plant. When the prime cost of

producing the turbine was reviewed, it turned out that for some parts the metal expenditure coefficients used by the plan to substantiate material expenditures exceeded the net weight of the turbine parts sent to the installment stage five to eight-fold. Since the crude blanks of these parts were subjected to repeated mechanical processing, their final cost proved to be 10-15 times higher than the cost of the raw metal. Inasmuch as a high-quality and very expensive metal is used when the turbine is produced while custom equipment and a highly skilled work force are employed during mechanical processing, the state's possible losses could total many millions of rubles. Only after an appraisal conducted by the USSR State Committee for Prices was the projected wholesale price of the turbine requested by the plant reduced by 40 percent; this included reducing the cost of forge work for the turbine's rotor -- its main design element -- by 64 percent by reducing the norms of metal expenditure [6, pp 48,49]. The example cited is evidence of the fact that clearly irrational norms of utilization of metal and other types of resources were already incorporated in the stage of substantiating the technical specifications of the turbine. And such an incident is not unique. All this means that the designers, engineers, and scientific workers who create new models of machines, equipment, and instruments often attempt to solve technical problems without taking into account society's costs and the demands of the law of rational utilization of the resources of social work time which K. Marx considered "the first economic law on the basis of collective production" [1]. And the present methodology of price formation does not prevent this. so expenditures which do not pursue the goals of stimulating scientific-technical progress and insuring increased production efficiency on its basis can already be incorporated into base prices.

The system of incentive markups now used (increased profitability and various types of supplementary payments to prices) for qualitative indicators of production or the technical level of output produced is also indeterminate from the standpoint of reducing social expenditures and strengthening savings measures in the national economy. Any markup on price or additional profitability is a preliminary but, nonetheless, full payment by the consumer for the effect which can be obtained in production using new equipment. But because of the gap in time between the payment and receiving the real effect, a markup in price or increased profitability can cause discrepancies between the material-physical and value content of the output being produced and be the source of indeterminacy in the final indicators of fulfillment of national economic plans. The use of ferrous metals may serve as a graphic example in this regard.

The price list for ferrous metals is constructed in such a way that it envisions a whole system of markups and supplementary payments to the base wholesale price of each particular grade of metal for increasing its qualitative features. Guided by this principle and relying on the officially operating price list, the Magnitogorsk Metallurgical Combine could have, for example, increased the average quality category of metal to the level of the fifth category in the 10th Five-Year Plan. However, the plan for selling metal confirmed for most consumers that many of them had ordered metal of the third category rather than the fifth category. The unwillingness of consumers to use more qualitative features of the metal resulted in direct losses for the state. In a case when the consumer paid the markup on the wholesale price

and then used higher quality metal for other than its designated purpose, a real overstatement of the metal's final price as compared to the actually necessary production costs occurred. Because of the close interdependence between metallurgical production and other sectors of the national economy, even a small overstatement of price in one link of metal consumption caused a chain reaction of increased expenditures in other sectors; this magnified the initial price increase for metal in the economy on the whole (in this case as a result of quality markups) several-fold.<sup>2</sup> But if the combine supplied consumers with high quality metal without markups (and it was compelled to do so in order to insure fulfillment of the national economic plan for sales where there were no consumers prepared to pay full price for the metal), this resulted in great losses for the combine. In the years of the 10th Five-Year Plan, this type of loss ran into many tens of millions of rubles.

The increase in wholesale prices without a corresponding increase in production efficiency and the qualitative parameters of output being produced, which was especially characteristic for a number of years after the 1967 wholesale price reform, led to a situation where a stable and rather substantial increase in the price of the intermediate product of society began to occur with a simultaneous reduction in the share of national income being created in aggregate gross social product. The proportion of national income fell 3.4 percent in 10 years (in 1977) as compared to the base period for establishing the previous wholesale prices (1965). In the comparable structure with the period before the reform this was equivalent to a more than 32 billion ruble overstatement of the value of society's intermediate product (and correspondingly to a decrease in the monetary sum of realized national income). And this is despite the fact that after the wholesale price reform the price formation organs reduced the overall level of wholesale prices (the balance between partial reductions and increases in wholesale prices) by 26-27 billion rubles. Of course, to a certain degree this reduction still slowed down growth in the value of society's intermediate product and the related decline in the rate of increase in national income [6, p 49].

The main cause of the discrepancy between the present system of establishing prices (including the use of markups and supplementary payments) and the goals of rationalizing production based on the demands of the law of conservation of social work time is that the prices being established "recognize" scientific-technical progress only in the sphere of opportunities to change volume-cost production indicators. If output production is increased, manufacturing costs are reduced, or consumer features are increased (for example, power, reliability, convenience of operation, and the like are increased), then prices also respond accordingly: either their general level is increased or enterprises are insured a larger share of profit within the limits of invariable prices. The response is completely different to economizing in material and labor expenditures outside the limits of particular production facilities, let us assume, through improving the organizational-administration forms of managing the economy: improving conditions of supply; increasing the technical level of existing production facilities; putting transport ties in order; more efficient specialization and cooperation of enterprises, and so on. The present methodology of price formation is at times inert relative to these aspects of scientific-technical progress since there is no corresponding volume-cost expression for such forms of conserving social resources. And

today it is precisely these forms of rationalizing production which as a rule give the greatest return on the national economic scale. Along with the aforementioned, the mobility of prices caused by introducing all kinds of markups and supplementary payments disturbs the stability of plan indicators. Including one particular markup or another in a price can be fair and necessary today but prove to be unnecessary and even harmful tomorrow. Since price changes influence the financial-cost balance of plan proportions, it becomes necessary to continually adjust plan indicators and budget sub-headings. Moreover, in the circulation sphere there is movement of additional monetary masses not coordinated in advance with the planned material proportions of production.<sup>3</sup> All this taken together gives reason to believe that the contemporary methodology of price formation has a number of shortcomings which narrow the range of the impact of prices as levers of economic regulation of production and stimulators of its increased efficiency. The demand of the June 1983 CPSU Central Committee's Plenum to develop scientifically substantiated principles of planned price formation is therefore a timely and extremely necessary condition for real reorientation of the established economic mechanism to encourage the intensification of production, toughen savings measures in the national economy, and increase economic stimuli in the development of enterprises. In our opinion, methodological approaches to establishing prices should now be reviewed and made directly dependent on the demands of scientific-technical progress and the performance of tasks dictated by the course of the contemporary scientific-technical revolution.

With planned organization of economic ties which presupposes the compulsory subordination of producers (consumers) of output to the state plan, price loses the function formerly inherent in it -- to exclude inefficient manufacturers (consumers) from the sphere of creation and use of social product and national income. The disappearance of the foundations for creating competitive production facilities as a means of pressure on each manufacturer of output to reduce production costs leads to the situation where expenditures of socialist enterprises begin to be equated to their socially necessary level. For a number of objective, and in many cases also subjective, reasons the prerequisites arise for using prices to compensate for costs which actually occur in production without the appropriate evaluations of conditions and their origins and without a consistent approach to selecting factors to be taken into account when planning the actual amounts of prices. The situation arises where the level of prices begins to be dictated not by progressive technical-economic features of production (consumption) as the interests of society demand, but by those features which in fact exist and which are sometimes even poor ones. Prices begin to justify and even to some extent finance the technical backwardness of production. This is also the reason that cases are encountered in management practices where mechanisms and machine units which are not only obsolete but also long since wornout are kept on the balances of enterprises and in the structure of industrial-production funds of sectors. Price inertia as a means of forcing the elimination of technical backwardness in production in combination with the observed trend toward increased wholesale prices for new equipment leads to the situation where the forces of opposition to scientific-technical progress among managers become so great that even such seemingly powerful factors of influence as a shortage of work force cannot turn sectors (enterprises) toward proper

utilization of the potential of science. In our opinion, what has been said means that the guideposts in price formation used today do not encourage intensification of production. The main function which prices are supposed to fulfill is to be the measure (norm) of rationality of expenditures (level of consumption). Only in this capacity are they able to "work" for strengthening savings measures in the national economy, stimulating scientific-technical progress, increasing labor productivity, and ultimately further increasing the efficiency of social production. In our opinion this makes it necessary to precisely establish the initial positions of planning and setting prices from the standpoint of their conformity to contemporary demands in organizing production and taking into account the condition and nature of the development of production forces.

Today's price formation practices are based on two main conceptions regarding the parameters of production used as the base for establishing prices: average or poor production conditions. Without denying the justification and even necessity of such a price orientation for a particular stage of the formation and development of the socialist planned economy, there are reasons to assert that the mobilizing possibilities of such directives as the foundations of planning price levels have already exhausted themselves and do not meet demands in the sphere of creating conditions for intensifying production and increasing its efficiency on the basis of introducing the progressive achievements of science and technology. The system which has developed for determining price levels based on an understanding of sectorial production costs as the measure of socially necessary expenditures not only does not stimulate rational expenditure of material, labor, and financial resources but also makes it possible for managers to compensate for expenditures which arise in production, independent of their fairness for society. Inasmuch as the national economic plan is not only the main organizing principle of the functioning of socialist production but to a certain degree a method of social justification of expenditures as well, and, consequently, of conditions of production and their origins, a very unique situation then arises. On the one hand, the fundamental interests of the development of socialism as an economic system require maximally accelerating the rate of scientific-technical progress, reorganizing the structure of the economy, and reconstructing and organizing the most progressive production facilities in accord with the latest science and technology, while on the other, the normative base of planning proportions and assignments of national economic plans -- prices -- seems to restrict the realization of these needs: it happens that improving production by utilizing the potential of science is possible and even desirable but not compulsory since what has already been created and exists is already satisfactory. Unnecessary strain and contradictions arise in the sphere of national economic planning.

The mechanism of planned management of the economy cannot function normally if it does not have an indicator for identifying the "sore points" of the condition and development of production, readings of which would be a prerequisite for making decisions on the fate of inadequately efficient production facilities, above all on technical re-equipping them. Nonetheless, there is now simply no precise indicator for identifying inefficient production facilities. And the whole point is that there is no instrument of economic compulsion which would put the very process of working out national

economic plan assignments under objective state control. In their present meaning prices (only following the plan) are not such an instrument and are objectively unable to be such an instrument; indeed, they often serve as a screen that is convenient to camouflage, using the plan, all kinds of poorly thought-out management and economic decisions and even direct bad management tolerated by certain managers of enterprises and sectors. Preserving the present guideposts in price formation -- structuring prices based on average or poor conditions of production -- means voluntarily or involuntarily erecting barriers between the ultimate interests of developing socialist society and the mechanism of their realization -- national economic planning. It seems to us that this situation can be changed if the process of developing the national economic plan is put under the direct, rigorous control of prices, whose level would be dictated by the objective necessity of making decisions which conform to the real interests of society back in the stage of drafting national economic plan assignments.

Scientific-technical progress influences production in two main interrelated directions: it helps satisfy newly arising social needs (as well encouraging their very appearance) and meets needs which already exist but with fewer expenditures of social labor than before. While in the first case the level of expenditures has no decisive significance (the very achievement of progressive innovation, for example possessing nuclear energy, conquering space, and the like, acts as the measure of the effect here), in the second case, in contrast, it is precisely the factor of reducing costs (conserving work time) which becomes decisive in raising production efficiency. In the practical sense, the task is reduced to providing prices with the ability the dictate the proportions of production based on the need to include in the plan assignment the maximum possible incorporation of society's existing scientific-technical potential and rapid, massive dissemination of progressive, already-incorporated schemes and production principles. With such an approach to prices, the problems of converting the economy to an intensive basis of development, increasing labor productivity, and ultimately increasing production efficiency are also resolved accordingly.

Metal manufactured on the basis of the technology of the 1930's will differ very little from metal obtained from using the most contemporary achievements of science and technology. But from the standpoint of final national economic effect (to produce not only more but better and cheaper) the existence of this metal produced on the basis of obsolete technology is already unjustified in the general balance of its production. But today there is no indicator which enables its low efficiency for society to be identified. Neither the volume of metal output nor the amount of profit from its sale nor any other volume-cost evaluations being used in planning reflect the level of technical progress of metallurgical production. But what solution to this situation appears?

It seems to us that there are two ways to solve the problem. The first one is the ideal variant where the proportion of output created using the most progressive equipment and technology of metal production would be acknowledged as the indicator which reflects the level of technical (technological) efficiency of metallurgical production, while the parameters of production of the best manufacturing enterprises which supply this metal

would be acknowledged as the basis for determining the normative prime cost which must be included in the level of actual prices for metal output. Prices constructed on the basis of normative prime cost would immediately identify the real state of affairs in metallurgical production -- the level of backwardness of certain enterprises as compared to the level of contemporary demands. In turn this would help increase economic responsibility for any discrepancies allowed in the technical (technological) equipping of existing production facilities.

The unprofitableness of production facilities when converting to new principles of setting prices should become the main criterion of work efficiency of national economic management and planning organs. Planning officials or links that permit situations where state subsidies are needed at enterprises or sectors entrusted to them (overseen by them) must carry direct material responsibility for this as for activities which contradict the interests of the state and society as a whole; this can be done by differentiation of pay rates. When the number of unprofitable production facilities cannot be reduced by increasing prices, as is done today (any newly-introduced price must make expenditures norms adopted earlier stricter), they have no other way to eliminate the unprofitableness which exists but to redistribute resources in favor of reconstructing out-of-date production facilities and intensively updating equipment and technology at existing enterprises. Prices would thereby become the mechanism of economic compulsion which would put the basic link of the organization and management of socialist production -- the national economic plan -- under real economic pressure. And this is exactly what the existing economic mechanism lacks. There would also not be any particular difficulty in regard to sources for accumulating the capital needed to insure cost-accounting conditions of activity for unprofitable enterprises.

At one time (1978) calculations were made to find ways other than increasing wholesale prices to solve the problem of eliminating the unprofitableness of the raw material and fuel sectors of industry. Among others, the consequences of reducing prices of machine building output worth about 10 billion rubles in 1975 were analyzed. Instead of the inevitable decline in growth of monetary savings of industry which seemingly should have been expected with a lower level of prices in machine building, a substantial increase was observed with a simultaneous decline in needs for additional subsidies from the budget for other sectors of the economy. In the 10th Five-Year Plan, which accounted for the overwhelming share of the total reduction in the level of wholesale prices during the period 1967-1978 (27 billion rubles), the growth rate of subsidy payments stabilized while monetary receipts to industrial accounts grew substantially. Further research has shown that if we had reduced the level of profitability in industry on the whole from 14-15 percent to 7-8 percent, which is completely adequate for forming economic incentive and production development funds and for sociocultural needs, by the early 1980's the general level of wholesale prices could have been reduced by more than 50 billion rubles. Since wholesale and other types of prices (tariffs) of equal significance shape the cost of the intermediate product while the social cost of all social product being created remains the same when the price level changes (when it is reduced or increased), this would also have meant an increase of almost the same amount in the money part of national income

realized by the budget. Analysis once again confirmed that an increase in wholesale prices is a result of a decline in industry's work efficiency; a reduction in wholesale prices, in contrast, reflects (and is a prerequisite for) a real increase in production efficiency. In other words, converting to the principle of planning prices oriented to better production conditions would require an inevitable reduction in existing wholesale prices which would also increase the reserves of necessary capital savings for the corresponding subsidy payments to unprofitable enterprises.

But what does it mean today to convert to the principle of setting prices based on normative prime cost determined on the basis of the best (ideal) conditions of production? This would mean the need to transfer a large majority of existing production facilities to the category of unprofitable ones and lead to the very difficult problems of redistributing capital through the budget to their benefit and generating a certain moral dissatisfaction in enterprise collectives which are now acknowledged as working normally. Therefore, the second way, which proposes converting to new conditions of planning prices in stages, seems better. The essence of this approach is illustrated by the example of an economic sector such as the coal industry, whose costs have been upsetting the entire system of prices in the national economy for decades.

The unprofitability of extracting coal, as already noted, was a decisive argument in favor of conducting the 1982 wholesale price reform.<sup>4</sup> Analysis of the sector's economic activity has shown that coal prices are significantly affected by the high prime cost of extracting Donets coal. The Donets Basin's total losses exceeded the shortage of profit for the USSR Ministry of Coal Industry as a whole in 1980 by more than two times. This meant that if the prime cost of Donets Basin coal had not been so high, the extraction of coal in the country as a whole would have been profitable and it would not have been necessary to increase coal prices. The stabilization of coal prices would in turn have eliminated the need for the 1982 general reform of wholesale prices. Under the existing price formation principles where the level of prices does not dictate the conditions and forms of organization of cost-accounting but, on the contrary, the formal prerequisites of organizing cost-accounting determine the level of prices, it was not possible to avoid the 1982 wholesale price reform. This was the only way to eliminate the unprofitableness of extracting coal. But the problem would appear in a completely different light if price-setting were oriented not to actual but to a certain extent to normative conditions of production and, consequently, to expenditures.

Today more than 70 percent of Donets Basin mines (and approximately one-fourth of the mines in the Kuznets Basin) organize the process of extracting coal in conditions where the difference between the depth of the mine shaft and the horizons where cutting and removal to the surface are carried on runs into dozens and even hundreds of meters, while the approaches to these horizons are through so-called temporary transport networks (in the form of a spiral). Calculations confirm that just bringing existing mine shafts to the necessary depth (extraction horizons) and eliminating the transport systems built on this basis would make it possible to reduce the average prime cost of every ton of Donets Basin coal by 5-6 rubles and of Kuznets Basin coal by

1-1.2 rubles. The capital investments needed to reconstruct mine shafts are 0.5-0.7 billion rubles calculated per year. But planning organs do not allocate the needed capital, and at the same time they appropriate larger sums for increasing the extraction of coal, in other words, for developing new coal layers based on developing those same temporary transport networks. Increased coal prices concealed these shortcomings but did not eliminate them. If coal prices not only took actual costs into account but costs of normally equipped mines (which do not permit gaps between the depth of the mine shaft and the extraction horizons), the planning organs' direct economic responsibility for the condition of the sector's mine fund would appear. The losses which develop would be a direct result of miscalculations in planning while the price level would make it necessary to allocate capital for reconstruction on a priority basis. Calculations confirm that the Donets Basin's annual losses from the incomplete development of mine shafts reach 1-1.2 billion rubles while the corresponding figure for the Kuznets Basin is 150-170 million rubles. If just one "clean-up" five-year plan period were envisioned for the coal industry (for the Donets and Kuznets Basins above all), this could yield a savings in prime cost which would exceed expenditures for capital investments for reconstruction purposes by 2.5-3 times. Naturally, these capital investments would not lead to an increase in the extraction of coal but they are extremely necessary since they will help avoid a new escalation of expenditures and prices in the economy in the near future.

Nevertheless, the Donets Basin as a whole will obviously remain unprofitable even after this reconstruction is complete. And this is fully explicable. The basin is old and requires substantial capital investments not so much to increase the volume of coal extraction as to maintain the level already achieved. Ideally, capital investments being put in today could be transferred to developing other basins, thereby compensating for the loss of Donets coal. But people working in the mines and the auxiliary services for coal extraction must not be "transferred" to new regions along with the capital investments. The objective need to utilize the highly skilled labor of the hereditary miners of this region will demand coal mining, even where it is clearly inefficient as compared to the country's other coal basins. This means that the increased costs of the Donets Basin must be classified as a particular type of social costs of society when converting to the new principles of price-setting. Since the expenditures of the social plan have never determined the level of wholesale prices or even of retail prices, price formation organs will inevitably face the question of excluding the prime cost of Donets Basin coal from the calculated base for planning the general level of coal prices. Taking into account that it is precisely the prime cost of Donets coal which today is the limiting factor of the national economy's whole existing system of wholesale prices, this will also pose the question of conducting a wholesale price reform on the basis of substantially reducing these prices.

Of course, prices established on the basis of the normative average conditions of production will still be far from the ideal price level which takes the best conditions of production into account. But even in this case they will take on certain functions of measures of compulsion in regard to the basic level of economic management -- the national economic plan -- since they will immediately "cut off" expenditures generated by poor management and

miscalculations in planning and managing production. But on the whole the price system will not only become a kind of indicator for identifying "sore points" in the development of the economy but also the basis of the action of the socialist-type mechanism of economic compulsion which our national economy so needs. In the future, as managers adapt to the significance of prices as norms which dictate reasonable ceilings of expenditures (measures of consumption), the following step will be justified and necessary: costs which are defined as not simply normal averages but the best from existing production facilities (costs of leading enterprises) will be adopted as the basis of prices and in some future stage the question of the wisdom of converting to the principle of establishing prices on the basis of expenditures dictated by ideal conditions of production may arise.

But as an instrument of direct state influence on the mechanism of economic management of production, any price system can function normally and exert its regulatory influence on economic ties and interrelations in the sphere of exchange only under conditions of an organized system of record-keeping and reports on expenditures at all levels of organization of the economy both in enterprises, associations, and ministries and on the scale of the entire national economy. We must regretfully state that today disorder in record-keeping is such that in practice it is extremely complicated to establish how much the production (use) of certain industrial or agricultural output costs society. And, as a result, such categories of economic control over the progress of social production as prime cost and prices have stopped fulfilling their proper functions: prime cost -- to be the measure of expenditures and prices -- to insure the equivalency of mutual exchange among sectors, spheres, and subdivisions of social production. A specific example of this is the interrelations of industry with national economic sectors which are experiencing labor shortages. They are agriculture, the sphere of processing and storing agricultural output, construction, transportation, and certain other sectors. The principle of giving sponsorship assistance in itself raises no objection. But this method (which is simple and adequately effective today) of avoiding the objectively existing labor shortage caused by the specifics of the contemporary demographic period by no means always meets the deeper and more long-term demands of economic expediency. Methods of organizing mutual assistance which do not rely on the appropriate economic legal order are beginning to distort the system of record-keeping and reports in the national economy, unjustifiably increase production's need for live labor, and become an obstruction in the path of scientific-technical progress. The reason is that assistance is given free of charge.

Material resources and the labor of employees recruited from industry to, as an example, take part in seasonal agricultural work continue to be taken into account in the costs of basic production although they have no real relationship to the production of industrial output. In addition, in order to carry out the process of producing output envisioned by the state plan in which the recruited employees no longer participate, an additional wage fund is needed to pay for the labor of those workers and office workers who have remained at enterprises who must now work overtime and on days off. On the other hand, the cost of producing agricultural output which is processed in this same industry is clearly lower than the actual social cost, since a substantial part of expenditures which are reflected in the prime cost (and

ultimately in prices) of the output of industry are not taken into full account. Since in this situation prime cost and prices as economic categories begin to lose their purpose (being a criterion of actual social expenditures and insuring equivalency in the sphere of economic interrelations), as was already noted, it is natural that there ceases to be a basis for any objective calculations of economic efficiency or variants for comparison when making planning or management decisions. But this is only one side of the problem. The other, which in our opinion is even more serious, is that, in the age of the scientific-technical revolution it gives a kind of economic justification to restricting the use of machines and comprehensive mechanization of jobs in agricultural production.

The labor of the recruited workers, which is being paid according to the lowest wage scales and in many cases is simply "gratuitous," is in no way comparable to mechanized labor. Equipment supplied by agriculture must be paid for and costs for maintenance and repair must be carried and ultimately taken into account in the prime cost of output. How much simpler and cheaper it is for the sector to deal with a "free" work force. But this is only from the position of the sector's interests. For the national economy the labor of recruited workers is more expensive since the wages of working people sent to agricultural work are as a rule higher than the labor payment of workers in the agricultural occupations. Consequently, society is interested in the maximal saturation of agricultural production with equipment and means of mechanization of labor-intensive jobs. This is a path which, on the one hand, helps "force out" from agriculture the nonprofessionally performed labor of recruited workers with its low productivity while, on the other, reducing real social costs through replacing "expensive" manual labor with machines. But this method of solving the problem does not fit in the sector's present economic interests.

In order to avoid the contradictions noted, in our opinion a system must be set up by which a sector which needs additional labor (material) resources would pay for these resources in the amount of their real cost to the sector -- the supplier of the resources. This means that while the work day of a highly skilled engineer sent to do work as a sponsor in a sovkhoz or a fruit and vegetable depot is paid 15 rubles by the place of main activity, and transporting him there and back costs another 3 rubles, then the sovkhoz or the depot should transfer the whole 18 rubles to the enterprise which sent this engineer. The enterprise bookkeeping office should take these transfers from the cost of basic production and consider them as a component part of the enterprise's production volume in the form of the cost of "charity" services to outside organizations. If the enterprise where the engineer works is on budget financing, the amount subject to transfer should be sent by the sovkhoz or the depot to state budget income and recorded as a return of allocations for wages and material resources intended to maintain this enterprise but in fact used in another sector of the economy.

Straightening out record-keeping for expenditures in interrelations between enterprises (organizations) which render sponsorship services and use these services will, in our opinion, create the proper foundation for economic responsibility for the recruitment of work force. For the farm system, workers will not be "gratuitous" as they are today and people who perform jobs

which are not customary for them will be more expensive and inefficient because of poor qualifications and low labor productivity.

The example cited reveals the obvious shortcomings which seem to lie on the surface in the present system of national economic record-keeping and reports and which in principle will not be very difficult to correct. But on the whole the problem of record-keeping of expenditures is now so confused, complex, and multifaceted that it will require special attention from economic science in the coming years.

#### FOOTNOTES

1. On the threshold of developing the draft plan for the 20<sup>th</sup> Five-Year Plan, the USSR Ministry of Coal Industry issued proposals to the organs of planning and price formation to increase the present level of coal prices by an average of 75 percent. I would like to emphasize that the position that increasing prices is not a method capable of solving economic problems is clearly and with full documentation traced in all decisions of the party and government which deal with questions of prices and price formation, including the 12 July 1979 decree, which was the last one. The resolution of the 15th All-Union Communist Party (Bolshevik) in November 1926 stated directly: "Increasing wholesale prices is especially dangerous in conditions of the real monopoly of state industry, since it inevitably leads to technical stagnation in it and to increased bureaucratism in the entire economic apparatus."
2. Calculations made on the basis of the intersectorial balance confirm that each ruble accounted for in the costs of production or additional profits in the initial raw materials for producing final output increases the final social expenditures in the stage of selling this output (because of its own repeated circulation) by 3-5 rubles.
3. The system for introducing markups and supplemental charges to prices is today decentralized to a substantial degree. In addition to the organs of price formation, USSR Gosstandart services, ministries (departments), and in certain cases even directors of enterprises have been given this right. Since a large part of the markups being established "settle," as a rule, in economic incentive and enterprise development funds, an additional demand not accounted for in the plan for both consumer goods and for industrial output arises. On the scope of the national economy, this type of additional need for material resources accounts for many hundreds of millions of rubles.
4. The general factors that necessitated the 1982 wholesale price reform are not examined here. It should only be noted that, according to calculations made for the situation as of the beginning of 1980, without exception the prime cost of all types of fuel, including coal, was lower than the prime cost for extracting them in 1967 for comparable conditions of calculating expenditures. Technical progress which led to a decline in real material and labor expenditures not only covered the increased costs related to worsened natural and mining-geological conditions but also brought a

substantial share of capital receipts into the state budget. In 1978-1979 the fuel-energy complex sectors brought income into the budget in the form of profits, turnover tax, and other monetary means totaling 33 billion rubles with production costs at 64 billion rubles. The earning power of the fuel-energy complex sectors thus exceeded 50 percent. There is no other sector of the economy which could even approximately be compared to this group of sectors in profits and efficiency. Let us note for comparison that the total losses of coal extraction during these years exceeded 1 billion rubles, while taking into account state subsidies for thermal power and logging the losses amounted to slightly more than 2 billion rubles. The question suggested itself: from the standpoint of economic expediency would it not have been better to search for another several billion rubles for subsidy purposes when incomes were so substantial and level out the losses which developed in the coal industry and in logging than to embark on a fundamental wholesale price reform? Obviously, in the process of preparing for the 1982 wholesale price reform, proper attention was not devoted to opportunities for the efficient use of distribution and redistribution processes in the sphere of financial relations (outside the use of a system of prices).

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## Determining Profitability Norms

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[Article by V.M. Gal'perin: "On Determining Profitability Norms"]

[Text] The expediency of determining profitability norms in wholesale prices as percentages of the prime cost of output is substantiated. It is demonstrated that this method of establishing the differentiated norms of profitability is the simplest method available in practice for taking into account, in the price-formation process, the elasticity of demand from prices.

The course which is being implemented to expand the rights and increase the responsibility of enterprises for the results of their work presupposes a substantial increase in the role of prices in managing the economy. Because of this, the following question is of interest: to what degree would one method of including profit in wholesale prices or another help increase their role?

New wholesale prices were introduced in industry beginning 1 January 1982. At the same time, net output norms were developed and included in price lists for the first time. When determining the new wholesale prices many sectors adopted prime cost minus material expenditures (the cost of raw and processed materials, fuel, energy, semifinished goods, and assembly components used) as the calculation base for including profits in these wholesale prices.

The expediency of such a change in the base for determining profitability was motivated by a number of considerations. In the first place, eliminating the effect of differences in the materials intensiveness of items on the structure of net output norms was recognized as extremely important and the primary condition for the mass conversion to using these norms to measure production volumes and labor productivity, which the CPSU Central Committee and USSR Council of Ministers decree of 12 July 1979 "On Improving Planning and Intensifying the Economic Mechanism's Impact on Increasing Work Efficiency and Quality" envisioned. Secondly, as has been repeatedly noted, in conditions of the further development of specialization and cooperation in production, determining profitability as a percentage of prime cost involves the multiple addition of profits, leading to an unsubstantiated increase in the price level of finished goods, on the one hand, and preventing reduction of the materials-intensiveness of output -- on the other. Finally, some economists have emphasized the similarity between the new methodology of determining profitability and the so-called cost conception of price formation. The fact that the planning of prime cost has essentially continued to be optional and the volume of output sale was supposed to be ratified for enterprises only in order to evaluate the fulfillment of obligations on output deliveries has undoubtedly also had an impact on converting to a new base for determining profitability when setting prices.

It should be noted that the attempts that are being encountered to absolutize net output norms and give them the role of ideal gauge of the final results of

production must not be considered sound. "Evaluating the volume of production activity according to net output norms which remain unchanged for some years is arbitrary," V.A. Medvedev justifiably emphasizes. "Unlike actual net output figured on the basis of the prices which actually exist by deducting the actual material expenditures from them, net output norms are distinct from the real cost-financial relations of enterprises and associations and are not organically related to expenditures which actually accumulate, the amount of profit, and so on" [2]. But eliminating the impact of materials-intensiveness on the structure of actual net output calculated on the basis of "actually existing prices" would not be at all sensible. Any savings or overexpenditure of material expenditures would be directly reflected both in increased actual net output and in the amount of profit.

Substantial changes were introduced in the system for planning and evaluating the work of enterprises in the 11th Five-Year Plan. Above all, the CPSU Central Committee and USSR Council of Ministers decree of 30 June 1981 "On Intensifying Work on to Conserve and Rationally Use Raw, Fuel-Energy, and Other Material Resources" recognized the need to ratify assignments on the prime cost of output in five-year and annual plans, beginning in 1983. These assignments are set as expenditures per ruble of commodity output. As was again clarified during the first experience of using this indicator in 1959-1962, it characterizes the profitability of output rather than prime cost.<sup>1</sup>

Because of this, posing the question of the expediency of using two different methodologies of determining profitability -- one for price formation needs and another for the purposes of current and medium-term planning and evaluation of the work of enterprises -- at the same time is appropriate and timely. Let us note that using a new methodology for the needs of current and medium-term planning as well would involve a number of fundamental difficulties, N.I. Burzova and V.P. Kraytman correctly pointed out [4].

The timeliness of the question increases because of the large-scale experiment being conducted in accordance with the CPSU Central Committee and USSR Council of Ministers decree "On Additional Measures to Expand the Rights of Production Associations (Enterprises) of Industry in Planning and Economic Activity and to Increase Their Accountability for Work Results" from 14 July 1983. In Ministry of Heavy and Transport Machine Building and Ministry of Electrical Equipment Industry enterprises which have been working under the experiment since 1 January 1984, annual planned increases in material incentive funds have been made directly dependent on the planned reduction in expenditures per ruble of commodity output. But the actual absolute amounts of the deductions into these funds during the year are adjusted as the plan on reducing expenditures per ruble of commodity output is fulfilled as well as the plan on volume of output sale, taking into account the fulfillment of obligations on deliveries in accordance with contracts concluded. Management employees are awarded bonuses contingent on fulfillment and overfulfillment of these same indicators. Measures are also being taken during the experiment to expand the scope of utilization and increase the efficiency of the normative method of distributing profits and to strengthen ties between the results of the work of enterprises and total profits which are left at their disposal. The group of sectors working under the experiment has been substantially expanded in 1985. These changes in the economic mechanism will undoubtedly have an effect on the

relationship of enterprises to the structure of net output norms. Eliminating the effect of differences in the materials-intensiveness of items on the structure of wholesale prices themselves -- the ratio of prime cost and profit in them, that is, on the profitability of output, one of whose characteristics is the indicator of expenditures per ruble of commodity output -- rather than the structure of net output norms, whose sphere of application is substantially narrowed, obviously acquires the dominant role in equalizing conditions of stimulating cost-accounting enterprises. In these changed conditions the need for a uniform approach to determining profitability when setting wholesale prices, above all for newly incorporated output, both in current and in medium-term planning increases sharply.

The more general question of the existence and nature of an interdependence between methods of including profits in wholesale prices and the resource-intensiveness of output is also of interest. The point is that from the standpoint of the search for economic stimuli to reduce materials-intensiveness, the new methodology of including profits in prices represents a logical completion of the delineation and differentiation of sectorial profitability norms begun back in the early 1970's in a number of machine building sectors. In establishing prices, total profits were determined according to differentiated norms as percentages of the processing cost (expenditures proper) and of the cost of materials, semifinished goods, and assembly components bought. This delineation and differentiation of profitability norms was supposed to help reduce the materials-intensiveness of output, since an increase in this intensiveness would lead to a reduction in total profits on the given item.

The literature contains no data on the effect of this differentiation on the materials-intensiveness of machine building output. Nonetheless, the mention of the lack of the needed turning point in improving the utilization of material resources and the high materials-intensiveness of many types of machines and equipment contained in the CPSU Central Committee and USSR Council of Ministers decree of 30 June 1981 as well as additional measures to conserve materials envisioned by this decree give reason to believe that this differentiation has not had a substantial effect on the level of materials-intensiveness of machine building output. Thus, the question of the existence and nature of interdependence between methods of including profits in the price of the product and its resource-intensiveness remains urgent.

The problem of selecting a base for determining profitability when setting prices was the focus of debates on questions of price formation in the late 1950's-early 1960's. At that time this problem was posed and attempts were made to solve it as a problem of selecting a price model which would best correspond to socially necessary expenditures of labor. The demand for a one-time equalization of profits by sectors and products in a uniform norm relative to one base or another (labor payment, prime cost, production funds) was common to all the conceptions proposed at that time (the cost conception, mean cost, production prices). It is true that even then some supporters of production prices pointed out that in realizing their conception in practice in multiproduct sectors, the uniform national economic profitability norm relative to production capital would have to be supplemented by differentiated sectorial norms established in percentages of prime cost. Among others V.A.

Sobol' and V.D. Belkin [5] and N. Ya Petrakov [6] made these proposals. Their opponents also pointed out the difficulties of determining the capital-output ratio in sectors with multiple product lists. "Given these problems," wrote D.D. Kondrashev, "everything would ultimately come down to distributing savings in prices of certain items proportional to prime cost" [7]. It is precisely this method of determining profits which was used in practice in conducting the 1967 price reform.

It is characteristic that those taking part in the debates essentially gave no consideration to Marx's observation that "equalizing profits to a general profit norm. . . is obviously a result and cannot be the starting point" [1]. "Nonetheless," V.N. Bogachev later wrote, "adopting the equality of profit norms as a prerequisite for price formation, distorting the mechanism of intersectorial competition of capital described by Marx, nevertheless leads to a 'price formula' which fully coincides with Marx's price of production. The appearance is thus created that mechanically adding to production costs the value of capital given as a percentage of a certain universal norm is the procedure for determining 'socially necessary expenditures' sanctified by Marx's authority. And somehow it is overlooked that the actual distribution of aggregate social 'capital' among various production sectors may not at all correspond to the distribution by which the overall profit norm would be realized in prices that balance supply and demand" [8].

Let us point out two consequences of debates of this nature and direction. In the first place, the task of selecting the most efficient method of including profits in the prices of certain items, considered precisely as the "starting point" of price formation rather than the result of the optimal distribution of resources, has been forgotten by those participating in the debates. Secondly, the use of prime cost as the base for including profits in wholesale prices of output of multiproduct sectors during the 1967 price reform has begun to be considered (see, for example, [9]) a forced and temporary measure which was only justified because of the lack of developed methods of calculating the capital-output ratio of items. Let us cite a statement characteristic of that time: "Now it (prime cost -- author) is only a transitional base. This means that the base for calculating the profitability norm is something other than prime cost, but when they switch to determining the price of an industrial article, prime cost is used as a transitional base." [10] It is characteristic that in the "Procedure for Determining Wholesale Prices for New Production-Technical Output" for 1969 and 1974, determining the normative profits as percentages of prime cost was allowed only "if the determination of the capital-output ratio of a unit of new output is impossible in practice," [11] that is, as an exceptional and forced measure, too. And in the draft "Methodological Principles of Determining Profitability Norms When Setting and Planning Wholesale Prices for Certain Types of Items" [13] in which, obviously, conditions for using various methods of including profits in wholesale prices were formulated for the first time, the only thing that made it correct to use bases for determining profitability distinct from the capital-output ratio was the impossibility of calculating capital-output ratio.

It was precisely against the background of ideas formed in this way that the use of prime cost as the base for determining profitability when setting

wholesale prices was unsound and a forced, temporary measure and that proposals to further constrict this base and convert to determining profitability in percentages of prime cost minus material expenditures were then developed.

For the first time, apparently, the American economist-engineer W.L. Churchill tried in 1932 to substantiate the expediency of excluding material expenditures from production costs when determining the amount of profit in prices. "With a given number of workers," he asserted, "an enterprise should receive the same amount of profit, regardless of changes in the structure of output being produced or in the prices of materials being used" [14]. In order to do this, accounting for material expenditures in determining profits included in prices must be rejected. In response to the question "Is it correct to calculate profits for materials?" he wrote, "I say -- undoubtedly, if you are engaged in the buying and selling of materials. But if you are engaged in the production sphere, then you sell your ability to turn materials into finished goods or adapt them to the needs of consumers" [14, p 30]. Therefore, the amount of profit in the price of a commodity should also be proportional to the prime cost of manufacturing which reflects the "company's social contribution" in contrast to expenditures for items bought which characterize its role in distributing materials and assembly components. Such an adjustment of prices, as the author believed, will automatically reduce the gap in the cost of high-quality and low-quality goods to the extent that the differences in their quality are the result of the use of expensive or, in contrast, cheap materials.

Table. Production Costs, Prices, and Profits, in dollars

<u>ITEM</u>	<u>Gold-Plated</u>	<u>RINGS</u>	
		<u>Gold</u>	<u>Platinum</u>
1. Material Expenditures (per unit)	0.50	5.00	25.00
2. Manufacturing Cost (per unit)	1.00	1.00	1.00
3. Production Costs (per unit)	1.50	6.00	26.00
4. Prices with a Profitability of 25 Percent of Costs; Line 3 times 1.25	1.88	7.50	32.50
5. Profit with an Output of 250,000 rings (Line 4 minus Line 3) times 250,000	95,000	375,000	1,625,000
6. Adjusted Prices with a Profitability of 100 Percent of Manufacturing Cost; Line 3 plus (Line 2 times 1.0)	2.50	7.00	27.00
7. Profit with an Output of 250,000 rings; (Line 6 minus Line 3) times 250,000	250,000	250,000	250,000
8. Change in Prices, in percentages (+ [increase], - [decrease]) (Line 6/Line 4) times 100 minus 100	+33.0	-6.7	-16.9

Churchill illustrated the distortion of prices because of unsubstantiated inclusion of profits for materials and the need and possibility of adjusting them with a very simple but impressive and attention-deserving example of the production of three types of engagement rings: gold-plated, gold, and

platinum [14, pp 30-31]. Engaged in their production are 100 workers and an annual fund of work time of 2,500 hours, the production technology does not depend on the materials used, and 1 hour of work time is needed for the production of any ring. Thus, the annual output can be 250,000 rings. Data on the structure of costs, prices, and profits are shown in the table [previous page]. It is obvious from the table that with prices proportional to full costs and identical expenditures proper, total profits differ depending on the materials-intensiveness of the output by a factor of 17.1 -- from 95,000 dollars to produce 250,000 gold-plated rings to 1.625 million dollars to produce the same number of platinum rings. But by using prices proportional to the cost of manufacturing, total profits are completely independent of the amount of material expenditures and hence from the structure of production.

But nonetheless, the example cited, like many similar to it, does not prove the expediency of excluding material expenditures when setting profit norms in prices. The point is as follows. The adjustment of prices in Churchill's example led to an increase of 33 percent in the price of the comparatively cheap (lower materials-intensiveness) gold-plated rings and to a 16.9 percent reduction in the price for the expensive (higher materials-intensiveness) platinum rings. It is apparent that in the real market where prices act as more than just an accounting category, such a change would lead to a reduced demand for the first and an increased demand for the second. Obviously, those 250,000 gold-plated rings which were sold before prices were adjusted could no longer be sold at the new one-third higher prices and the company would have to return to the former, comparatively lower price level. In addition the impossibility of immediately increasing the production of platinum rings to more than 250,000 in order to satisfy increased demand would also obviously make it necessary to return to the former price level or lead to an increased demand for platinum itself and increase its price.

Thus, the redistribution of profits in favor of less materials-intensive items leads to the redistribution of demand in the opposite direction, that is, in favor of comparatively cheaper more materials-intensive items; given a stable structure of supply this makes it necessary to reestablish the former ratio and structure of prices. It is therefore not surprising that the price adjustment proposed by Churchill found no support in the business world or in scientific literature. One of the most important American specialists in the field of management and price formation in industry, J. Dean, remarked on this proposal: "The idea that certain elements of costs are of more importance in forming profits than other elements is difficult to substantiate in particular and because such a mechanistic approach to price formation ignores the differences in the elasticity of various commodities as well as the existence and possible appearance of competitors" [15].

The debate which began in Western economic literature after the appearance of a widely-known work [16 -- "Price Theory and Business Behavior"] is important, despite certain differences in initial methodological principles, in order to understand the role which production costs play as the base for determining profits included in wholesale prices. It was shown that companies do not pose tasks of short-term maximization of profits on the basis of the well-known principle of equality of maximum expenditures and income. Instead of doing

this, they strive for long-term maximization of profits, using prices established on the basis of average costs and a certain percentage of profit.<sup>2</sup> The authors considered the reason for such behavior, which does not conform to the recommendations of theory [16-19], to be that companies do not know either the function of demand for their output or the maximum expenditures for its production, which makes orienting price formation to the equality of maximum expenditures and income impossible in practice. However, it was also shown that if average variable expenditures (C) do not depend on output volume, then there is a certain interdependence between their level and price (P) and the elasticity of demand from prices (e):

$$P = C (e / e - 1),$$

which -- and this should be emphasized -- does not depend on the structure of variable expenditures, especially the proportion of expenditures for materials and work force in them.

It is therefore not surprising that, as many studies confirm, multiproduct companies establish reduced (as compared to costs) profitability on commodities which have close substitutes and higher profitability on commodities which do not have them. Although employers possibly never use the term "elasticity," the differentiation they are conducting between profitability norms still presupposes a certain knowledge of the possible response of indicators to the level of prices, and this is what is usually called the elasticity of demand. Thus, setting prices on the basis of average costs and a profitability norm differentiated relative to the existence of close substitutes relative to costs is the simplest form accepted in practice for taking account of the elasticity of demand from prices when they are being set. K.B. Kozlov and R.M. Entov called attention to this characteristic feature of the contemporary practices of price formation by capitalist companies [20].

But of what importance is selecting a base for determining profitability norms on commodities in wholesale prices when it comes to increasing the role of prices in managing the national economy?

Opportunities to use prices to manage the economy are determined by the existence of a certain elasticity in the behavior of economic units (enterprises, organizations, and the population) from prices or, in other words, by a dependence of the decisions they make on the level, structure, ratios, and dynamics of prices. Consequently, the actual role of prices in a particular system of management depends on the existence of these opportunities, on the one hand, and on the degree of conscious use of them for purposeful influence on the behavior of economic units, on the other.

The very elasticity of the behavior of economic units in turn depends primarily on their motivation, which is determined by the entire system of economic relations, among them organizational-economic relations, and only then on the specific features of commodity production. Suffice it to say that the elasticity of the behavior of enterprises from prices will obviously be different depending on in what form and to what degree of detail assignments on producing output and restrictions on resources are established in addition

to if (and to what degree) their activity is oriented "to the plan" or "to the level," or to "such a synthetic indicator of local efficiency as profit and profitability" [2, p 101]. The differences resulting from this serve as the foundation for classifying all conceivable systems of management according to the role which they assign to prices -- from those in which prices are the only regulator of the economy to those where they are used simply as an accounting category.

The experience of the countries of socialism shows that socialist society can consciously establish, change, or maintain the optimal limits of elasticity in the behavior of economic units from prices, using the management mechanism which corresponds to a particular stage of its development to do this. In light of this, it is important that opportunities for the active use of prices resulting from a certain elasticity be utilized to the fullest extent in the interests of society as well.

In connection with this, correct evaluation of the real limits of elasticity of the behavior of economic units determined by the given economic mechanism is of great significance. Thus, when a certain degree of elasticity in demand and supply exists, prices can be used to insure and maintain balance. But in the opposite case, if elasticity is extremely small, does not exist at all, or is of a unilateral nature, the change in prices does not eliminate an unbalance -- the increased shortage will continue to be accompanied by inefficient, uneconomical consumption of resources and accumulation of superfluous reserves of commodity-material valuables. The "unilateral causal tie" emphasized by J. Cornai appears here. A high level of scarcity helps increase prices and there is no inverse dependence; high prices do not lead to the reliable relaxation of the tension" [21]. Therefore, the more complete the society's conscious influence on the entire system and the entire objectively functioning mechanism of prices is, the fewer opportunities there will be for this mechanism to have an autonomous, uncontrolled inverse effect on economic and social processes.

However, it should be acknowledged that in recent years, against the background of occasional and at times very abstract arguments on the optimal and even simply the tolerable level of elasticity of behavior in economic units from prices, the role of prices in managing the economy has been substantially reduced. Apparently, this is explained by the fact that while the supply of commodities and services is to a certain degree elastic from prices, enterprise demand for production resources is in practice completely inelastic. Enterprises are economically sensitive to the level of prices only for output they produce but not for raw and processed materials, equipment, and production services which they use. The usual relationship of interchangeability of resources and products is substantially modified. An increase in the price of some resource no longer leads to a reduction in the supply of the product. It is considered by the consumer as only sufficient reason for posing the question of changing assignments on prime cost and profits in the current period and of increasing prices for his own output as soon as possible. As these desires are satisfied, a transformation of the relationships of the interchangeability of resources and products in regard to replenishment is observed -- an increase in the price of the resource is no longer accompanied by a reduction in the supply of the product but, on the

contrary, an increase. But inasmuch as the nature of the resources used and the expenditure norms are determined by technology, it turns out that the predominant technologies predetermine the levels of costs and prices of output being produced with sufficient rigor, since the impact of prices or assignments to reduce prime cost on the nature of the technology being used remains very problematic. This inelasticity of production demand substantially restricts the role of prices in managing the economy and makes direct centralized control over the consumption of each type of resource by each enterprise necessary.

An economic mechanism which does not fully conform to the contemporary level of development of society also has an effect on the system of prices itself and the methods and practices of price formation. Let us examine, for example, the nature and forms of utilization of prices to stimulate the conservation of material resources.

The price mechanism has its own particular method of stimulating conservation of all kinds of resources, including material resources, which is characteristic only of it -- as is well-known, when it is necessary to increase conservation of some specific resource, its price rises comparatively, which leads to a reduced demand for this resource. Of course, other methods of regulating the consumption of resources exist but none of them -- and this should be emphasized -- are related to the use of the price mechanism.

Nonetheless, because of the assymetry noted in the behavior of enterprises and the inelasticity of their demand for production resources, including material resources, we cannot use this method. For, obviously, because of the insensitivity of consumers to a change in prices, this change is not reflected in the demand and consumption of resources, while the rise in their prices will be "passed on" to the consumer of the output manufactured using more expensive resources and, ultimately, to society. Let us attempt to solve the problem by considering the enterprise not as the consumer of the resource but as the producer of output in whose manufacture this resource is used. In other words, not having the opportunity to use elasticity of demand for the given resource for management needs, we will use the existence of a certain elasticity in the supply (production) of finished output from its prices for the same purposes. This is the economic sense of price determination as envisioned by the new procedure [22] and the maintenance of their level with a reduction in labor intensiveness and materials intensiveness and the use of cheaper types of materials as well as secondary raw materials and wastes without changing the quality and technical-economic parameters of the output.

Furthermore, the very conversion to determining profitability norms as percentages of prime cost minus material expenditures also has the purpose of influencing the level of prices in the absence of efficient control over them by the consumer, under the specific conditions where inelastic demand predominates.

This is also characteristic in the practice of using prices to stimulate the production of new equipment. Like a mirror, the assymetry of the behavior of enterprises is reflected in the assymetry of the system of markups and

discounts. The practice of extremely restricted use of discounts for obsolete equipment "encourages" the pronounced sensitivity of enterprises to prices for output being produced. On the other hand, the inelasticity of enterprises' demand for resources, especially for resources used repeatedly, offers extensive opportunities to increase prices of new equipment by establishing incentive markups. This method is followed in practice. It is characteristic that while the maximal size of the markup indicated by the 1974 "Procedure" was restricted to an amount corresponding to one profitability norm, the 1983 "Procedure" increases this limit to 30 percent of the wholesale price. There is no doubt that such a rise in the price of output for the consumer or even a smaller one is possible only because of the inelasticity of its demand from prices. If consumers were economically sensitive to prices output acquired, especially that acquired through capital investments, this system of encouraging new equipment could hardly exist.

But in reality markups received by manufacturers in the course of a number of years, including after the process of incorporating series production of new output is complete, have the character of unearned [rental] income. The proportion of unearned incomes can also be increased in connection with converting to setting wholesale prices on the basis of the prime cost of the first year of series production, especially when the convergence of current and invariable prices noted earlier has occurred.

Converting to the new methodology for determining the normative profit included in wholesale prices should have led (and in fact did lead) to a redistribution of the cost among materials-intensive and labor-intensive types of output and among particular items, in favor of labor-intensive ones. Thus, because of the fact that the proportion of expenditures proper in the production of automatic forge-press machines is twice as high as in the production of hammers, the price of automatic forge-press machines rose due to a change in the methodology of including a 6.6 percent profit in the price while the price for hammers declined [23]. These and similar examples are usually evaluated positively, since redistribution of profit to the benefit of labor-intensive and in this case more progressive output should obviously stimulate the production of precisely this output, and, vice-versa, help reduce the production of materials-intensive and in this case less progressive output.

Nonetheless, such reasoning logic is at least debatable if attention is given to the fact that in the example cited not only profit but also the prime cost of output for the consumer was redistributed and that more labor-intensive and progressive output has now become more expensive and less efficient for him while the more materials intensive and less progressive output has become cheaper and more efficient. In this case don't consumers prove to be more interested in acquiring comparatively cheaper but more materials-intensive output? Won't the way of stimulating reduced materials intensiveness chosen lead to its increase?

Thus, realization of the policy of expanding the economic independence of enterprises and increasing their accountability for work results is inevitably related to increasing the role of prices in managing the economy, accelerating scientific-technical progress, and increasing production efficiency. And

overcoming the above-noted elasticity of enterprise demand for production resources can and must become virtually the most important direction in this strengthening of the role of prices. In these conditions it is absolutely essential to take the elasticity of demand into consideration when setting prices. When there are no more efficient methods to do this, establishing differentiated profitability norms as percentages of prime cost may be used, especially since this differentiation is used in the practice of price formation. Let us also note that only by overcoming the inelasticity of production demand is it possible to exert an active influence to reduce the materials intensiveness of output.

#### FOOTNOTES

1. See, for example, the reports of Sh.Ya. Turetskiy, V.A. Bunivovich, B.V. Gubin, L.V. Medoks, and others [3].
2. This method of price formation received several names in literature: cost-plus pricing; markup pricing.

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IMPORTANCE OF SOCIAL FACTORS IN REGIONAL DEVELOPMENT STRESSED

Assimilation of New Territories

Moscow NAUCHNYY KOMMUNIZM in Russian No 1, Jan-Feb 85 pp 23-30

[Article by Candidate of Philosophical Sciences, Assistant Professor M. A. Guryevich under rubric "Theory and Practice of Developed Socialism: "Social Problems of the Assimilation of New Territories Under the Conditions of Developed Socialism"]

[Text] The theory and practice of the planned administration of the development of socialist society includes, to an increasingly active degree, the territorial aspects of the creation of the material-technical base of communism. In the decisions of the 26th CPSU Congress there was emphasis of the need for the more complete taking into account, during planning, of the socioeconomic differences among the regions.

The growth of the economic potential of the USSR is inseparably linked with the efficient placement of our country's productive forces, that is, with their placement in accordance with the new sources of raw materials and fuel. The intensive development of production in the Urals, Siberia, and the Far East emerged as a very important sociopolitical task at the very first stages of socialist construction. From the moment of the formation of the USSR, the assimilation of new countries became the nationwide course of the social policy of the CPSU and the Soviet state, the implementation of which contributed in every way to the complete development of their productive forces and to the efficient use of the local natural resources.

The creation of the material-technical base of socialism and its improvement included, and continues to include, the broad development of economically underassimilated regions of the Urals, Siberia, the Far East, and the virgin lands of Kazakhstan. As early as the first years of the Soviet authority, in an article entitled "The Food Tax," V. I. Lenin advanced the thesis of the comprehensive development of the economic region and directed attention to the need for the "exemplary organization of a small 'whole,' but precisely a 'whole,' that is, not a single economy, not a single branch of the economy, not a single enterprise, but, rather, the total sum of all economic relations, the total sum of the entire economic turnover, albeit of a small locality" (Lenin, V. I., "Poln. sobr. soch." [Complete Collected Works], Vol 43, p 234).

In his work "Rough Draft for a Plan for Scientific-Technical Projects, V. I. Lenin formulated very important principles for the placement of the productive forces, which received their further creative development in the decisions of our party's congresses. The initiatory ideas of V. I. Lenin concerning the comprehensive development of regions permeated the first five-year plans.

As early as the initial stage of the state planning in the USSR the experience of the planning and construction of industrial centers in the regions, instead of individual enterprises, received nationwide recognition. Something that became a convincing example of their organization was the resolution of the problem of the Urals-Kuzbass, which was begun in 1930. After the war the system of these industrial centers developed on the Angara and Yenisey.

In the state plans for the economic and social development of the USSR one sees the manifestation, to a greater and greater extent, of the territorial objects of planning. In the 11th Five-Year Plan, in addition to the Nonchernozem Zone of the RSFSR, the eastern economic regions, and a number of oblasts in Siberia, the plan includes the indicators for eight very large territorial-production complexes [Russian abbreviation TPK; hereinunder TPC], as well as a target program for the economic assimilation of the zone adjacent to the Baykal-Amur Mainline. In the planning of the development of these regions and TPC the participants include all the ministries and departments that have enterprises on their territory, as well as the union and autonomous republics and the oblast and kray Soviets of People's Deputies. All the planning work is carried out under the guidance of USSR Gosplan. The regions included in the sphere of centralized planning occupy in the RSFSR approximately 30 percent of the territory, where more than 65 million persons live (see "Planirovaniye ekonomicheskogo i sotsial'nogo razvitiya oblasti" [The Planning of the Economic and Social Development of the Oblast], Moscow, 1983, p 9).

In the future the assimilation of new territories will expand and will take the path of creating territorial-production complexes which, to a greater and greater extent, have been acting as a new form of organizing socialist production and economic activity.

Foreseeing the need for the planned placement of productive forces, F. Engels wrote that it is only under socialism that industry can "be placed throughout the country in the way that is most convenient for its development and preservation, and also for the development of other elements of production" (Marks [Marx], F., Engel's [Engels], F., "Soch." [Works], 2nd ed., Vol 20, p 307).

To the complete extent this principle has been confirmed at the present time, when the territorial organization of the productive forces has become widespread. The territorial-production complex is its most progressive form, which creates the possibility of obtaining an additional social and economic effect. It is precisely in the TPC that one sees the implementation of the unity of economic activity, which unity, under the conditions of mature socialism, constitutes the basis of the region as a social organism.

The formation and development of the TPC is of great social importance. It guarantees the economic assimilation and settlement of the new territories, the creation there of an efficient system of population dispersal, and the improvement of the protection of the environment. The 26th CPSU Congress noted that "the industrial assimilation of the new regions is important both socially and politically. The production collectives that arise there take with them high efficiency in labor and in everyday life, and a new, modern rhythm of life" ("Materialy XXVI s"yezda KPSS" [Materials of the 26th CPSU Congress], Moscow, 1981, p 33).

The category "territorial-production complex" in the conceptual apparatus of the social sciences is relatively new. At the 24th CPSU Congress emphasis was made of the need to improve the placement of the productive forces and to guarantee the efficient combination of branch and territorial planning (see: "Materialy XXIV s"yezda KPSS" [Materials of the 24th CPSU Congress], Moscow, 1971, p 279). The accumulated experience made it possible for the 25th CPSU Congress to introduce into the party documents the concept "territorial-production complex" (see: "Materialy XXV s"yezda KPSS" [Materials of the 25th CPSU Congress], Moscow, 1976, p 152), as a form of organizing the economy of the territories within the confines of which the resolution of very important national-economic tasks is being carried out. The 26th party congress deemed it desirable "to stipulate the further development and formation of territorial-production complexes and industrial centers, especially in the regions that are being newly assimilated" ("Materialy XXVI s"yezda KPSS", p 185).

The active formation of TPC reflects an objective natural law governing the development, placement, and territorial organization of the productive forces of developed socialism under the conditions of the NTR [scientific-technical revolution]. In the 1980's these complexes play an important role in the development of our country's national economy. Linked with them, as was noted at the 26th CPSU Congress, are the major changes in the placement of the productive forces. The formation of these complexes is under way in the European part of the USSR, the Urals, Siberia, the Far East, and Kazakhstan. During recent years several complexes have been formed and are continuing to develop: the West Siberian and Timan-Pechora, Sayansk, Bratsk--Ust-Ilimsk, South Yakut, Lower Kama, South Tajik, and other complexes. They are typified by high rates of development. For example, from 1980 through 1983 in the West Siberian TPC the growth of overall volume of output was 30 percent; in the South Yakut, 26 percent; and the Pavlodar-Ekibastuz, 16 percent. In 1981-1983 the territorial-production complexes provided the entire nationwide increase in petroleum production (including gas condensate) and gas (see "SSSR v tsifrakh v 1983 g.: Krat. stat. sb." [The USSR in Figures in 1983: Brief Statistical Collection], Moscow, 1984, p 95). The creation of a harmonious, well-organized system of territorial-production complexes is a powerful lever for increasing the effectiveness of socialist production.

During the formation of the TPC, the problems that prove to be in the center of the sociologist's attention are the social problems dealing with the vital activity of the people on its territory: first, the specific peculiarities of implementing there all the social problems that are common to the entire

country; and, secondly, the social problems are that typical specifically of that region.

We agree with the opinion of Zh. T. Toshchenko, that "we must consider as an object in the social plan of the TPC the social relations, the problems of creating the conditions for the development of the individual. ...This posing of the question in social planning is directed primarily toward the creation of a series of conditions for resolving a very important historical task -- the attaining social equality and social homogeneity, which, in their turn, act as a stage in achieving another historical goal, the complete and harmonious development of the individual" ("Sotsial'noye proyektirovaniye" [Social Planning], Moscow, 1982, pp 161-162).

When elaborating the program for the formation of the TPC, one of the chief tasks is the planned development of the social infrastructure, which includes housing, children's institutions, schools, medical institutions, structures intended for social and cultural purposes, etc. This is provided for by the methodological recommendations of USSR Gosplan for elaborating the target programs for the resolution of the regional problems, and the formation and development of the TPC. The planned and comprehensive formation of the economy of the TPC, to a considerable degree, contributes to the development of the social sphere. Under these conditions one sees the most complete manifestation of the possibility of cooperative action, the shared participation of the departments participating in the creation of the TPC, in the construction and installation of objects in the social infrastructure.

Let us consider the basic tasks which, in this regard, confront the regional sociological research studies that have been called upon to assist the successful formation of the TPC.

The first task of the regional sociological studies consists in the scientific substantiation of the optimal proportions and rates of creation of the necessary prerequisites for raising the material standard of living and the cultural development of the population in the TPC, with the purpose of bringing closer together the conditions of the social development in all the regions of the country. In the USSR one still observes the dissimilar development of various regions. The regional differences in the social and economic development should be viewed as one of those social contradictions the overcoming of which must be carried out within the historical framework of mature socialism. That is precisely the manner in which the question was raised at the 26th CPSU Congress. That congress pointed out the need to equalize the social differences on a territorial basis and stated, "In various regions of our vast country, the cultural and everyday living conditions of people are dissimilar. It is precisely those differences that frequently complicate the situation with regard to labor resources in a number of places. Not like the climate or the wages are low, but because it is more difficult for a person there to obtain housing or to place a child in a kindergarten, or because there are few cultural centers there. That is why we intend in the present five-year plan to introduce in those regions, at even higher rates, the construction of housing and of the entire social and cultural complex..." ("Materialy XXVI s'yezda KPSS", p 54).

In the new regions the creation of the necessary conditions and comforts for people's vital activity is more complicated than in the territories that were settled long ago. This leads to additional expenditures for manpower. The expenditures for wages alone in the rayons of the North are 20-50 percent higher than in the country's central and southern rayons. Factually, this figure is even larger if one considers that increased standards are employed here for medical and social-and-everyday services, and housing support for the population. Larger expenditures are also involved in construction. The coefficient of additional expenses for construction-and-installation operations in the northern rayons varies from 1.2 to 2.1 (see: Gladyshev, A. N., Mozhin, V. P., "Territorial'no-proizvodstvennyye komplekсы SSSR" [USSR Territorial-Production Complexes], Moscow, 1982, p 16).

The large expenditures for maintaining manpower and the high specific capital investments require the paying of special attention to the resolution of social problems. A specific approach is required at such time for such questions as the sequence and the scope of construction of objects in the social infrastructure.

In our opinion, it is necessary to carry out a thorough study of the socioeconomic, sociodemographic, social-everyday, cultural, and natural peculiarities of the region where the TPC is being created, and to compare it on the basis of the basic parameters of social development with the other regions in the country. Of course, it would be incorrect at such time to take an approach of applying the same yardstick to the social development of the various regions in the country. "In the Far North there are completely different requirements with regard to foodstuffs, the provision with housing, the cultural-everyday conditions, and many other services as compared with the requirements in the central zone of the USSR," Academician N. N. Nekrasov writes (Nekrasov, N. N., "Regional'naya ekonomika" [Regional Economics], Moscow, 1978, pp 267-268).

The creation of equal social conditions for the lives of people in various regions of the country requires the necessary material base. Sociological studies indicate that in young cities the need for institutions providing public nutrition and trade, and personal services, for children's preschool institutions, schools, sports structures, and cultural and educational institutions is considerably greater than in well-established cities. Therefore the quotas that satisfy the population in the well-established cities with regard to their social blessings prove to be obviously insufficient for the population in new cities. Thus, planners proceed from the assumption that every 10,000 residents require 120 hospital beds. Scientists at the Tyumen Medical Institute assert: this standard does not take into consideration the fact that on the territory of the West Siberian TPC the permanent residents include more than 200,000 geologists, petroleum workers, and construction workers from other rayons who are operating on the basis of the watch and expeditionary-watch method, which statistics does not take into consideration. Therefore the standard should be increased to 180 beds. However, the designers of the cities and settlements at the TPC continue to orient themselves on the old standard (see: Peskov, V., SOVETSKAYA ROSSIYA, 9 December 1983). In this regard the question arises concerning the elaboration of scientifically substantiated social quotas and standards pertaining to the

items mentioned for the residents in the young cities in the territorial-production complexes.

The successful assimilation of the new territories presupposes the resolution of important social problems, and the complete and efficient use of all the potential spiritual and physical capabilities of the public living or arriving there. In order to assure that people will work fruitfully on the newly assimilated territories, it is necessary to create better conditions for them than in the southern and central rayons of the country, in the regions that have already been established.

A second task of sociological research when forming a territorial-production complex is the scientific substantiation of the optimal ways to resolve the questions of an intraregional nature. For this purpose, as Academician N. N. Nekrasov remarks, it is necessary to develop in every region (and we view the territorial-production complex as an independent region) a scientifically substantiated policy for resolving the regional social problems for the long-term period (see: Nekrasov, N. N., op. cit., p 270). This, naturally, is the purpose that the sociological research being conducted in the TPC must serve. It is only that research that can ascertain in full measure the material and spiritual needs of the population, the social orientations of the various groups of the population, and the successes and shortcomings in the ideological-indoctrinational work with them.

In this regard the third and very important task of sociological research in the territorial-production complex must be the thorough study of the material and spiritual needs, interests and demands of the population of the TPC, the specifics, the ways and means of taking a comprehensive approach to the communist indoctrination of the various social and demographic groups.

Finally, the fourth task of the sociological research to be carried out is the elaboration of plans for the social development of the territorial-production complex (or, rather, the social sections of the comprehensive plans for socioeconomic development), which must be created by the united efforts of the scientists in various areas of specialization and the workers at the planning organizations, because the assimilation of new territories, the formation of territorial-production complexes, the construction of new cities is always linked with the resolution of a number of complicated social problems, such as the development of new collectives, the stabilization of cadres, the providing of social-everyday and cultural services, etc.

The party documents of recent years especially emphasize one of the chief conditions for the harmonious development of our society: the comprehensive resolution of economic and social problems. This is linked with the fact that there has been an intensification of the social directedness of our forecasts and plans, and the need to take broader consideration in them of the human factor.

At the June 1983 Plenum of the CPSU Central Committee it was noted, "At the 26th Congress we made a clear-cut statement concerning the need to guarantee the close interrelationship between economic and social policy. And that is understandable, because the final goal of our efforts in the economic sphere

is the improvement of people's living conditions" ("Materialy Plenuma TsK KPSS, 14-15 iyunya 1983 g." [Materials of the Plenum of the CPSU Central Committee, 14-15 June 1983], Moscow, 1983, p 13).

Today the successful development of every region, and primarily on the territories that are being newly assimilated, is possible only if there is a simultaneous increase in the production and the social infrastructure. The comprehensive approach defines more precisely the duties of the ministries and departments and the local agencies of authority that are carrying out new construction.

Under the conditions of the highly developed social division of labor and the progressive concentration of industry, the TPC cannot exist without a fully valid social infrastructure, which presupposes the creation of a series of structures and enterprises that guarantee on the definite territory the necessary material and cultural-everyday conditions for the normal lives of the population.

Our research at the Upper Kama TPC, as well as the experience of creating other territorial-production complexes, particularly the country's largest one, the West Siberian TPC (see: Lysin, V., Parfenov, V., "The Tyumen North Today," PRAVDA, 6 May 1980), indicates that, when they are formed, there is a lag in the development of the social infrastructure. This, in its turn, leads to a number of negative phenomena (increased migration of the population, incomplete use of the labor of the other family members, increase in the number of persons with deviant behavior). Thus, a survey among the able-bodied population engaged in the homemaking and personal-plot management in the Upper Kama TPC showed that among that category of the population, approximately 59 percent expressed the desire to work, and of them, 306 women wanted to work provided they could place their children in preschool institutions, 32 women if they could find work for an incomplete work day, 79 women and 16 men if they could find work close to their home, and 298 persons, including 125 women, would want to find work in their specialty, but 49 men and 53 women would first like to learn an occupation (see: Makarova, G. G., Merkusheva, L. A., "Population and Labor Resources of the Bereznikovsko-Solikamskiy Microrayon," in "Territorial'nyye sotsial'no-ekonomicheskiye sistemy Urals" [Territorial Socioeconomic Systems of the Urals], Perm, 1981, p 122).

The chief reason for the lag in the creation of the infrastructure is the lack of a coordinating agency for administering the formation of the territorial-production complex. As a consequence there is no proper coordination or planning in the development of the infrastructure of the TPC, and departmental barriers arise. This leads to a situation in which the ministries that are building the TPC accelerate the construction only of the basic reportable objects for industry. But when constructing objects in the social infrastructure, those ministries and departments attempt to invest funds in objects with lesser labor-intensity, since in that instance there is a greater probability of plan fulfillment. Because of the different labor-intensity it continues to be considered unprofitable to build schools, kindergartens, or cultural-educational institutions (for the construction of the first of these, the expenditures of the construction workers' own labor are usually 1.3 times

greater, and the construction of the latter, 2.6 times greater than in the assembly and finishing of apartment buildings) (see: Shelud'ko, A., "A City Is Being Built," PRAVDA, 2 August 1981).

The experience of creating the territorial-production complexes attests to the fact that frequently it is precisely this manifestation of the departmental approach that lets itself be known, and one observes the violation of the principle of the unity of the interests of the branch and the region. This approach taken by the ministries and departments is explained by the fact that they first of all are responsible for the development of the branches, than than the development of the territories. But for the economic region that is being created, the narrowly departmental approach proves to be considerably detrimental, and it is the state that incurs the resultant losses. All this is restraining the rates of assimilation of the new regions, and it leads to certain undesirable social consequences.

In order to optimize the regional administration, documents that are of great importance are the decisions of the April 1984 Plenum of the CPSU Central Committee concerning the increasing of the role of the Soviets in the country's social life. The intensification of the role played by the agencies of Soviet authority in the outlying areas in social development and economic construction manifested itself clearly after the adoption of the new USSR Constitution.

The decree of the CPSU Central Committee, the Presidium of the USSR Supreme Soviet, and the USSR Council of Ministers, entitled "The Further Increase in the Role of the Soviets of People's Deputies in Economic Construction," dated 19 March 1981, defines the tasks in the comprehensive economic and social development of the territories that are under the jurisdiction of the local Soviets. In particular it is indicated that the master construction lists for the construction projects intended for nonproduction and environmental-protection purposes (irrespective of their departmental subordination) must be coordinated with the executive committees of the local Soviets. This procedure helps to correlate with one another (on the basis of volumes of expenditures and deadlines for activation) the production construction and the nonproduction construction. The implementation of the comprehensive plans increases the role of the local Soviets in resolving the varied questions of economic and social-cultural construction. The local agencies of authority obtain the opportunity to guarantee the correct correlation between the increase in production and the expansion of the urban management, and to achieve the more complete satisfying of the public's needs and the creation of favorable working, everyday living, and recreational conditions. In Ukhta (one of the centers of the Timan-Pechora complex), for several years, all the funds of the ministries and departments that are allocated for construction on the basis of shared participation have been concentrated in the hands of a single customer -- the capital-construction administration of the city executive committee. This makes it possible to dispose of the funds more efficiently both in housing construction and in the construction of objects intended for cultural and everyday purposes.

The enterprises in the various ministries that are situated in the same region do not have the proper social or economic self-interestedness in cooperating

either with one another, or with the agencies of territorial administration -- the local Soviets of People's Deputies. This is another reason for the departmental fragmentation. We have in mind the need to coordinate the results of the financial work of the enterprises of union and republic subordination more closely with the local budget. This coordination will be effective, provided the payments of the superior organizations become the source of capital investments for the construction and remodeling of objects in the social infrastructure: schools, kindergartens, hospitals, municipal structures, etc., that is, everything that exerts an influence upon the stabilization of the cadres in the region.

Today the production collectives have major material resources at their disposal. K. U. Chernenko, speaking at a meeting with the workers of the Serp i Molot Metallurgical Plant in Moscow, stated that "in addition to the tremendous state funds that are allocated for the resolution of social problems, many enterprises and associations today have at their disposal considerable economic-incentive funds. They constitute more than 50 billion rubles. These national funds must be used zealously, giving the priority to the primary needs of the working collectives" (KOMMUNIST, No 7, 1984, p 14).

A factor that is very important for the harmonious development of the new regions is the firm position of the local Soviets, when it is a matter of the use of capital investments. The concentration of funds in the hands of the local Soviets will fundamentally change the state of affairs in the construction of structures on the territory that is subordinate to them, and will increase the effectiveness of the use of capital investments in the infrastructure.

Evaluating the role of the central agencies in territorial planning, it is necessary to take into consideration the fact that the plans for individual regions are drawn up and approved for a small number of indicators, which frequently are limited to the production of the most important types of output expressed in physical terms, the volume of capital investments, and the activation of capacities and structures. These indicators are insufficient for guaranteeing the comprehensive economic and social development of the new territories. Therefore the planned assignments that are drawn up and approved on a centralized basis for the individual regions do not obviate the comprehensive planning on the entire territory. That planning is possible only if the plans have been worked over in detail on the part of the local Soviets (for more details, see: "Planirovaniye ekonomicheskogo i sotsial'nogo razvitiya oblasti", pp 6-20).

Valuable experience has already been accumulated concerning increasing the role of the local agencies in the economic and social development of the territorial-production complexes. For example, the Irkutsk Oblast Planning Commission carried out a large amount of work to resolve a number of questions linked with the formation of the Irkutsk-Cheremkhovo and Bratsk--Ust-Ilimsk complexes. The Krasnoyarsk Kray Planning Commission is engaged in defining the prospects for the development of the Sayansk complex.

In the decree of the April 1984 Plenum of the CPSU Central Committee, entitled "The Further Improvement of the Work of the Soviets of People's Deputies," it

is indicated that it is necessary "consistently to increase the role of the Soviets in economic construction, the fulfillment of state plans, the increasing of the effectiveness of socialist production, in guaranteeing the comprehensive nature of economic and social development, and the correct combination of the territorial and branch principles in administration" ("Materialy Plenuma TsK KPSS, 10 aprelya 1984 g." [Materials of the Plenum of the CPSU Central Committee, 10 April 1984], Moscow, 1984, pp 22-23).

The formation of TPC in the national economy during the past decade has become the subject of a number of studies by Soviet authors, as well as certain scientists in the other socialist countries. All of them are engaged in a search for those underlying natural laws that determine the creation of the TPC. Inasmuch as the formation of these complexes is in the initial stage, many of the statements expressed in these studies are of a problematic nature. As of the present time, not much social practice has been accumulated, on the basis of which one could come to conclusions of a generalizing nature.

The questions of the purposeful administration of the creation and development of the TPC, for all their vital importance and their relationship to the scientific-technical revolution, remain largely undeveloped. Their resolution requires the joint efforts of specialists in the theory of scientific communism and administration, economists, sociologists, and jurists. The improvement of the planning and administration of the territorial-production complexes is an important condition for the further development of our economy and the implementation of the requirement of the 26th CPSU Congress concerning the development of the uniform principles of the creation of territorial-production complexes and the interbranch administration of them.

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#### Regional Target Programs

Moscow EKONOMICHESKIYE NAUKI in Russian No 4, Apr 85 pp 68-74

[Article by I. Sigov, professor, doctor of economic sciences, Leningrad: "Target Programs for Regional Development"]

[Text] In the system of preplanning elaborations, the formation of various kinds of target programs as the reflection of the target-program approach to playing is becoming increasingly widespread. The essence of this approach is determined by the need for the purposeful development of Soviet society, which consciously assigns itself the appropriate tasks and ascertains the means for achieving them. The global basis for the development of all the programs in the USSR is the Program of the Communist Party of the Soviet Union, the new edition of which will be discussed and adopted at the next congress of the CPSU, the 27th. "It is with the principles stated in it," Comrade K. U. Chernenko points out, "that we shall coordinate the plans for our country's economic and social development for the 12th Five-Year Plan and for the longer-term period" (Chernenko, K. U., "To the Level of the Requirements of Developed Socialism: Certain Vitally Important Problems of the Theory, Strategy, and Tactics of the CPSU," KOMMUNIST, No 18, 1984, p 3).

The target-program method in planning is a necessary condition for increasing the scientific substantiation of plans and for intensifying their directedness toward the resolution of key economic and social tasks. That method acts primarily as a kind of opposite to planning "from what has been achieved," inasmuch as it proceeds from clearly formulated development targets. Another important peculiarity of this method consists in the opportunity provided by it for coordinating the interbranch and interregional problems in the preplanning elaborations and in the planning. In the Methodological Instructions for Elaborating the State Plans for the Economic and Social Development of the USSR, it is noted that "with the increase in the productive forces, the complication of the ties between the individual branches and territories, and the acceleration of scientific-technical progress in the national economy, there arise a greater and greater number of major interbranch and interregional problems whose resolution requires a comprehensive approach and the broad application in national-economic planning of the target-program method" ("Metodicheskiye ukazaniya k razrabotke gosudarstvennykh planov ekonomicheskogo i sotsial'nogo razvitiya SSSR [Methodological Instructions for Elaborating the State Plans for the Economic and Social Development of the USSR], Moscow, 1980, p 41).

The target-program method, as can be seen from the Methodological Instructions, is viewed in inseparable connection with the comprehensive approach to planning. The concept of "comprehensiveness" is broader than the concepts of the "balanced nature" or "proportionality" of development. Comprehensiveness necessarily presupposed a balanced nature, although not every development that is balanced with regard to individual spheres is comprehensive. By the comprehensiveness of development of society as a whole and its regional systems it would seem to be justifiable to understand the completely balanced nature of their development, the taking into consideration of all its aspects and spheres (economic, political, spiritual, social, ethnodemographic, ecological, etc.). "It is necessary for us, when elaborating our economic plans," it was pointed out at the June 1983 Plenum of the CPSU Central Committee, "to learn how to take complete consideration of, and to reflect in them, the most important factors of the development of society -- the social, national, and demographic factors. This must be the single policy of the party, the single strategy of social development" ("Materialy Plenuma Tsentral'nogo Komiteta KPSS 14-15 iyunya 1983 goda" [Materials of the 14-15 June 1983 Plenum of the CPSU Central Committee], Moscow, 1983, p 13). As Comrade K. U. Chernenko emphasized at the February 1984 Plenum of the CPSU Central Committee, "it is currently no less important to guarantee the closer and closer interrelationship among the economic, social, and spiritual progress of Soviet society. It is impossible to raise the economy to a qualitatively new level without creating the social and ideological prerequisites that are necessary to do this. It is equally impossible to resolve the pressing problems of the development of socialist consciousness without relying upon the solid foundation of economic and social policy" ("Materialy vneocherednogo Plenuma Tsentral'nogo Komiteta KPSS 13

fevralya 1984 goda" [Materials of the Special 13 February 1984 Plenum of the CPSU Central Committee], Moscow, 1984, p 16).

Therefore comprehensive development cannot be reduced, in particular, simply to the combination of the economic and social aspects; it also includes other aspects of development -- the political, spiritual, material-spatial, and other aspects. In this regard one cannot fail to mention the line that has developed recently at USSR Gosplan and Gosstroy that is aimed at the coordination of city planning with the system of state economic and social planning; this is an important condition of the comprehensive nature of the development of cities. It is stipulated that the general plans for the development of cities and other populated points, and schemes and plans for regional planning, are developed for a period of 20 years (planned period) with two intermediate deadlines that correspond to the five-year plan and the basic directions for the economic and social development of the USSR.

An important element of comprehensiveness is the maximum possible (within the confines of economic desirability) satisfaction of the production and personal needs of the population in the regions by means of local production (in particular, the production of foodstuffs, consumer goods, building materials, etc.). At the November 1982 Plenum of the CPSU Central Committee it was mentioned that the local party and Soviet agencies must engage seriously in the production of consumer goods. In September 1983 the Politburo of the CPSU Central Committee deemed it necessary to develop, as part of the Five-Year Plan for 1986-1990 and the Basic Directions for the Economic and Social Development of the USSR for the Longer-Term Period, the Comprehensive Program for the Development of Production of Consumer goods and the System of Services for the Public, having in mind the most complete satisfying of the various needs and requirements of the Soviet citizen. A restatement was made of the great importance of increasing the initiative demonstrated in such matters by the local party, Soviet, and economic agencies, and the more complete use of all the opportunities and reserves available there.

Another factor that it would appear possible to consider a component of comprehensiveness is the corresponding development of the branches of specialization. We have in mind the fact that that specialization itself, in the regions, must be comprehensive, that is, must unite the branches that have close production relationships among themselves with regard to the manufacture of the final products. In this regard the comprehensiveness presupposes the broad development of branch cooperative action in production on the territory of the particular region.

Finally, still another element of the comprehensiveness of the development of the regional system is the complete (comprehensive) use of its natural resources, as well as its production capacities, production and everyday waste products, etc.

As a means of carrying out the purposeful comprehensive development of regional systems, the target-program approach to planning is supposed to find reflection in the organizing of preplanning elaborations and planning. It is well known that at the present time there is developing in our country a rather harmonious system of this kind of organization, which encompasses the

comprehensive program for scientific-technical progress in our country and our regions for a 20-year period, and the concepts and basic directions in the economic and social development of the country (regions); schemes for the development and placement of the productive forces, and settlement schemes; comprehensive schemes for the protection of nature; regional development plans and general plans for city development; five-year plans for economic and social development; etc.

However, the complete set of all these materials is being developed by no means in every oblast (kray) or autonomous republic. For example, a comprehensive program for NTP [scientific-technical progress] is being formed only in the union republics, the major economic regions of the RSFSR, in Moscow (and also separately in Moscow Oblast), in Leningrad and in Leningrad Oblast. But the elaboration of that program in the major economic regions that do not have their own agencies of authority and administration is invariably rendered extremely difficult and cannot be successful without the involvement of the apparatus of the Soviets of People's Deputies in the krays, oblasts, and autonomous republics that are part of these regions. Similarly, the schemes for the placement of productive forces and the settlement of the population, schemes for the protection of the environment, regional development plans, etc. are by no means being developed everywhere for the individual oblasts, krays, and autonomous republics. Thus there is a substantial limitation of the opportunities that the local agencies of authority have for taking part in the determination of the prospects for the development of the corresponding administrative regions and for influencing the comprehensive use of resources, the increased efficiency in the employment rate of the population, the creation of the optimal production and social infrastructure, and the improvement of the environment.

The creation of a system of planning and administration that is adequate to mature socialism presupposes the expansion of the participation of the Soviets of People's Deputies in the oblasts, krays, and autonomous republics in the organization and carrying out of the preplanning elaborations on the territories that are subordinate to them, which are viewed as component part of the country's single national-economic complex. It is necessary first of all to bring the system of preplanning elaborations in the oblasts, krays, and autonomous republics into conformity with the system that is forming in the country and the union republics. It must include: a) a comprehensive program for scientific-technical progress for the next 20 years; b) the concepts and basic directions for the economic and social development of the oblast (kray) and autonomous republic; c) a scheme for the placement of the productive forces and the settlement of the population; d) a comprehensive scheme for the protection of the environment; e) a regional development plan and general plans for the development of the cities in the oblast (kray) and autonomous republic. A plan that deserves attention is the General Plan for Leningrad and the Oblast Until the Year 2005, which is being developed currently and which integrates, in essence, all the preplanning elaborations that have been enumerated above.

As applicable to the major cities, it would seem to be desirable to improve the system of preplanning elaborations that binds into a single whole the city-development planning and the basic directions in the economic and social

development of the city. This requires in its turn the guaranteeing of the closer interaction between the planning commissions and the architectural and city-planning administrations in the cities.

In recent years there has been a steady improvement in the elaboration of the state five-year plans for economic and social development. The Standard Methodological Instructions for Drawing Up Plans for the Economic and Social Development of Autonomous Republics, Krays, Oblasts, Okrugs, Rayons, and Cities, which were approved by USSR Gosplan in May 1982, changed the structure of these plans. They must encompass the entire economy on the particular territory and must consist of plans for the management that is subordinate to the appropriate Soviet; the basic indicators for the management of superior subordination; the basic indicators as a whole for the territory that is subordinate to the particular Soviet. Thus, the structure of the plans for the autonomous republics, krays, oblasts, okrugs, rayons, and cities is becoming adequate to the structure of the plans for the union republics.

At the same time the plans for the economic and social development of the country as a whole and the union republics have a territorial breakdown. Thus, the plan for the development of the country includes plans for the development of the union republics, as well as Moscow and Leningrad. In addition, it includes the plans for individual krays, oblasts, and autonomous republics for which special resolutions exist. The plans for the union republics include the plans for the autonomous republics, krays, and oblasts. However, the plans for the latter do not have any legalized territorial "cross section." As yet, essentially speaking, the system of state planning does not include, with certain exceptions, the immediately basic, primary territorial links in the national economy -- the cities and the rural rayons. The plans for comprehensive economic and social development that are being developed there are still, to a considerable extent, of a recommendational nature.

In this regard it would seem that the time has come to take a further step in improving the system of state planning of economic and social development -- the formation of a territorial "cross section" of the plans for the development of the oblasts (krays) and autonomous republics by including in them the plans for the comprehensive development of the cities of oblast subordination and the rural rayons. This will complete the formation of the territorial aspect of all the plans for economic and social development, beginning with the nationwide plan and ending with the plans for the development of the oblasts (krays) and autonomous republics. Thus we shall achieve the further improvement in the planning of the development of the economy of the oblasts (krays) and autonomous republics on the basis of isolating in them a territorial "cross section," and the elaboration and inclusion of the following plans: a) development of the oblast (kray) and republic centers and their suburban zones (agglomerations); b) development of the cities of oblast subordination; c) development of rural low-level administrative-economic regions on the basis of the regional agroindustrial associations (RAPO).

At the present time there would appear to be an increasingly persistent need to consider every major city and the agglomeration that is forming on its basis as a single, primary object of forecasting, planning, and

administration; the need to transfer the urban and rural settlements that are part of the agglomeration of a major city to the subordination of the Soviet of People's Deputies in the city that is the nucleus of the agglomeration.

What place, however, is occupied in the system of preplanning elaborations and planning by various comprehensive target programs for the resolution of various kinds of problems? It is obvious that they must concretize the basic directions in the development of the country (region), and must also include the first-priority measures for resolving various questions in the next five-year plan. It is only in this instance that they can become an organic component of the overall system of preplanning elaborations and planning in the country (region).

The question of the criteria for typologizing the program is of great importance. What is supposed to form the basis of their classification -- various first-priority problems in the development of the country (region), or the isolation of the basic spheres and conditions for development (functioning) that constitute, in their totality, the content of that development (functioning)? It would seem that the priority in typologizing the programs must belong to the scientific substantial delimitation of the spheres of development. It is obvious that each of them has its own problems, and with the passage of time they change, but the spheres remain. In addition, it must be kept in mind that the aggravation of the contradictions (the appearance of acute problems) is linked precisely with the lack of programs for the development of various spheres, their close coordination with one another, and, as a rule, it occurs as a consequence of the insufficient prediction of the situation in which they arise.

What, then, are the spheres of development of the society (region)? What lies at the basis of their delimitation? When answering that question it is necessary to proceed primarily from the Marxist principle concerning the delimitation of the social relations into the base (production) relations and the superstructure (political, spiritual, etc.) relations. Correspondingly it is necessary to differentiate the economic, political, and spiritual spheres. The development of society at every specific stage occurs in a definite ethnodemographic situation and material-spatial environment. The latter, in its turn, is subdivided into the natural environment and that which is artificially created.

The functioning and development of all the spheres and conditions of the existence of society feel the influence of scientific-technical progress as a special "slice" of the development of society that represents the improvement, on the basis of scientific achievements, of the material-technical base of people's activity in all spheres of their life. At the same time, in all spheres of society man exists as their subject, executing various functions: the function of worker; member of political and social organizations; producer, disseminator, or consumer of spiritual blessings; family member; etc. In all these spheres one sees the manifestation of people's way of life and the social development of society as a whole. Finally, in all spheres of vital activity, the "substantive" and "human" factors are united into various kinds of labor and other collectives which, in a definite manner, are organized, are interactive, and that function on an economic basis that is

necessary for this purpose. The organization of all these collectives, their interaction, the guaranteeing of the economic basis of functioning, that is, the kind of social combination of the processes of labor, constitute the economic-organizational "slice" of the development of society.

Thus, the "straight-through" processes that encompass all spheres of the development of society and that exert an influence upon the ethnodemographic situation and the environment are: a) scientific-technical progress; b) the economic-organizational development; c) social development. These processes characterize the definite aspects ("slices") of the development of society.

The spheres and conditions of functioning and development of society, as well as the "straight-through" processes that encompass them, can be the objective basis of the typologizing of the programs. An approach of this kind to their classification, in essence, was taken in Methodological Instructions for Elaborating the State Plans for the Economic and Social Development of the USSR. In those instructions the programs are subdivided as follows on the basis of their content:

-- socioeconomic programs, which are aimed at the resolution of the problems of the development and improvement of the socialist way of life, raising the material and cultural level of life for the nation, the transformation of the nature of labor, etc.;

-- scientific-technical programs, which serve to resolve the scientific and technical problems and the introduction of the achievements of science and technology;

-- economic-production programs, which are subordinate to the resolution of major interbranch problems in the area of production, the improving of its effectiveness, qualitative indicators, etc., and the development of new types of production entities, output (services), and technical-economic processes;-- territorial programs that are aimed at the economic assimilation of new regions in the country, or the transformation of those that have already formed, including the plans for the formation and development of territorial-production complexes;

-- ecological programs that are oriented toward the carrying out of major environmental-protection and environmental-transforming processes;

-- economic-organizational programs that are linked with the improvement of the organization of the administration of economic systems.

A factor of great importance is the determination of the basic content of each program. Obviously, each program must include: a) an analysis of the state of the particular sphere of development and the ascertaining of the problem it represents; b) determination of the purposes of carrying out the program; c) its resource support (legal-organizational, informational, personnel, material-technical, financial); d) implementation means (measures in accordance with the program); e) determination of the effectiveness of the implementation by individual definite indicators.

It is necessary to emphasize especially the need to delimit the resource support and measures in accordance with the program into two types: a) those pertaining to elaboration; and b) those pertaining to the implementation of the program. It is not difficult to note that the implementation of the program would be inconceivable without its inclusion in the five-year plan for the development of the country (region). But the inclusion of the first-priority measures of the program in the plan means, correspondingly, the guaranteeing of its resource support and the implementation of the planned measures.

Special attention should be directed to the legal-organizational support of the program elaboration. That support must include: 1) the elaboration of a Statute governing the program, with an indication of its legal status, the customer organization, lead elaborator, coexecutives of the elaboration, etc.; 2) the elaboration of a Coordination Plan that defines for all the coexecutives the content, procedure, and deadlines for completion of the operations, the volumes and sources of their financing; 3) the drawing up of Methodological Instructions pertaining to the elaboration of the program, which encompass: a) the initial assignment for elaboration from the customer organization (or on its instructions, from the lead elaborator); b) the goals and subgoals of the program, including the necessary description of the initial level of the state of the object, the final results, and the deadlines for achieving them; c) systems of basic indicators for the program, including the volumes of various types of resources necessary for carrying it out, and the indicators of its effectiveness; d) the organization and methods of administering the elaboration of the program.

What has been stated about the development of the target-program method of planning is applicable both to programs on the scale of society as a whole and on the scale of regions and major cities with a consideration of their specifics as socioeconomic complexes. It would appear to be possible to include as the major cities in the USSR all the centers of the basic national-economic complexes, that is, not only cities with a population of more than 250,000 persons, but also all the capitals of the union and autonomous republics, as well as the oblast and kray centers. These cities are the most concentrated centers of production and population with a highly developed artificial environment of habitation, with the greatest variety of the production and social infrastructure, and of social-political and spiritual life.

At the present time many of the major cities in our country are engaged in the elaboration of various kinds of target programs. For example, in Leningrad, in addition to the elaboration of the comprehensive program for scientific-technical progress for the city and for Leningrad Oblast, the following programs are being elaborated: program for the intensification of the economy on the basis of the acceleration of the introduction of scientific-technical achievements in the national economy ("Intensification-90"); program for the economizing of fuel and energy resources; program for the economizing of metal; program for reducing the application of manual labor in industry; program for improving the quality, expanding the variety, and increasing the volumes of production of consumer goods intended for cultural, everyday, and household use; program for the development of production of output designed

for general machine-building application; the "labor and cadres" program; program for improving the organization of the administration of the city management; etc. The elaboration of the target programs for the development of Leningrad and the oblast is constructed on the basis of the combination of the branch and territorial interests with the involvement of the local party and Soviet agencies in the supervision of their implementation.

Thus, a program that has become a qualitatively new stage in the efficient expenditure of all types of energy resources in the Leningrad region is the comprehensive target program that was elaborated under the guidance of the party's oblast committee for economizing fuel and energy in Leningrad and in the oblast, which program was planned for the 11th Five-Year Plan and for the period until 1990. This program, which has been given the name "Energy," was approved by USSR State Committee for Science and Technology. The program concentrates the efforts of the labor collectives on the resolution of the total number of interrelated major national-economic problems. Involved in their joint resolution are more than a thousand organizations in 38 rayons of Leningrad and the oblast, with a total energy consumption that is equal to 85 percent of the region's total balance sheet.

The functions of the daily coordination and supervision of the operations pertaining to the Energy Program have been made the responsibility of the oblast staff for problems of energy engineering, of the Council of Economic and Social Development and the Acceleration of Scientific-Technical Program, under the CPSU Leningrad Oblast Committee, and also the responsibility of the interdepartmental coordination council of the USSR Academy of Sciences in Leningrad, which have been called upon to guarantee an improvement in the quality and effectiveness of the operations being carried out.

In conformity with the Energy Program, on the initiative of the executive committee of Lensovet, a general scheme has been developed for the city's heat supply, which scheme has been planned for the period until 1990. Its application will make it possible to achieve an annual saving of 2.7 million tons of standard fuel.

Similar programs, and various other programs, are also being elaborated in the other major cities of our country. However, many questions pertaining to the legal-organizational, informational, cadre, material-technical, and financial support of the elaboration of the programs are still awaiting their resolution. It would seem to be necessary to have a definite typologizing and standardization of these programs as an important condition for raising the scientific level of their elaboration and the opportunity for inclusion in regional programs at a higher level, as well as in the five-year plans for the development of the cities. A vitally important task is the generalizing of the existing practical experience in the elaboration of the programs and the determination of the ways for the further improvement of this work.

The basis of the elaboration of the programs for development of each individual major city must be the programs for the development of the larger regional systems (oblasts, krays, republics that are not divided into oblasts), as well as the concept of the development of major cities as a definite type of settlements. Major cities must retain their role as centers

of scientific-technical progress, education, and culture in society, that is, their chief functions in the system of the territorial division of labor.

Thus, the policy of limiting the growth of the major cities in the USSR should not be equated with the limiting of their development. The latter, by its nature, must become increasingly intensive, based both upon the remodeling of industrial production and upon the progressive change of its structure.

The prospects for the development of all types of cities in the USSR should be viewed with a consideration of the attainment of a very important social goal -- the eliminating of the substantial differences between the city and the countryside. A factor of special importance here is the systematization of the agglomerations that form around the major cities, the conversion of such a city and its environs into a single group system of urban and rural settlements on the basis of a common production and social infrastructure. The creation of such systems means not the elimination of the countryside or the city as such, but, rather, the overcoming of their relatively isolated functioning, the establishment between them of close interrelationships, the creation of conditions that combine the advantages of the city and the countryside and that eliminate their shortcomings as "point-type" formations.

Within the confines of these systems it is desirable to create centers of intensive agricultural production, processing, and storage of agricultural output, as well as recreational zones. The directedness of the development of the urban and rural settlements that are included in the agglomerations around the major cities, toward the agrarian-industrial integration and the creation of recreational zones would appear to be the most promising one from the point of view of eliminating the social differences in the territorial aspect. We are accumulating our first experience in the formation of such systems, that are based on agroindustrial integration. In them we see the creation of such highly intensive forms of agricultural production as irrigated vegetable-growing, hothouse and hotbed management, mechanized livestock-fattening centers, poultry factories, etc. A special place in the structure of the suburban agroindustrial complexes is occupied by the subsidiary farms at the city's industrial enterprises, their agricultural "shops," as it were. Whereas at the present time they are frequently heterogeneous, isolated, mostly unprofitable agricultural projects, in the course of creating the suburban agroindustrial complex the possibility is created for making them an organic part of the major agricultural production on the basis of interfarm cooperative action with the kolkhozes and sovkhoses.

The elaboration of the concept of major cities with a consideration of the intensification of the national economy and agroindustrial integration is an important condition for raising the scientific level of the elaboration of the target programs for their development.

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# GOSSTANDART CHAIRMAN OUTLINES 1985, FYP PROGRAMS

Moscow PLANOVYE KHOZYAYSTVO in Russian No 5, May 85 pp 37-42

[Article by G. Kolmogorov, Gosstandart chairman and doctor of technical sciences: "Improving the Planning of the Technical Level and Quality of Production"]

[Text] The Communist Party of the Soviet Union is consistently following a course aimed at increasing the effectiveness of public production and the prosperity of the Soviet people on the basis of intensifying all branches of the national economy. In the final analysis, this should lead to the qualitative transformation of the country's production forces so that "... they should move in the shortest possible time to the most advanced scientific and technical positions and to the highest international level of social labor productivity," as the special March 1985 party Central Committee Plenum pointed out.

The task of shifting the economy to an intensified development path and of insuring maximum savings in all types of resources and rational management, which the party has posed, moves questions concerning the quality of the produced items to the forefront.

The role and responsibility of state standardization work grow considerably under these conditions. Today, it has become a special link in the economic mechanism for managing the socialist economy -- a link which permits, in the picturesque expression of V. I. Lenin, "... the maintenance of the entire chain and the solid preparation for a shift to the next link...." In actuality, state standardization, which possesses the features of work done ahead of schedule, progressiveness in norms and complexity combined with legislative force, provides an opportunity to use the existing norm and technical documents as an instrument of communications between planning and the final national economic results. The USSR Council of Ministers decree "On Organizing Standardization Work in the USSR," which was adopted in January 1985 points out that standards and specifications must be developed based on the highest achievements of our native and foreign science, technology and progressive experience and should provide solutions that are the optimum ones for the country's economic and social development.

The timely updating and the improvement of the structure and composition of the norm and technical document fund not only permit the achieved and expected national economic results to be fixed but also allow the technical level and quality of the produced items and the technical level of the development of the branches, i.e., as a result of active influence on the production forces of a planned socialist economy, to be controlled.

Preceding the realization of material flows, new technologies, changes in the organization and preparation of factories, etc., norm and technical documents not only reflect the structural improvements, which have been provided for during the planning period, but also provide an opportunity to make a qualitative evaluation and adjustment of these processes both for enterprises and individual branches and for the national economy as a whole. This close interconnection between standardization and planning determines the social use value of the existing norm and technical document fund which, first, as a barometer, reflects social production processes and, second, as a mechanism, permits them to be controlled.

The strengthening of management functions is impossible without a closer bond between standardization plans and the plans for incorporating scientific and technical achievements, industrial product production plans and all types of scientific and technical programs. Many indicators in these plans (mainly the qualitative ones) do not completely contribute to realizing the demands of rational management. The planning of technical level and quality should be first of all based on the establishment of a list of main indicators and a scientifically sound determination of their values considering current and future requirements of the national economy.

The year 1985 can and must become a year for forming workable conditions to solve these tasks. In order to fulfill the CPSU Central Committee and USSR Council of Minister Decree "On Measures to Accelerate Scientific and Technical Progress in the National Economy," approximately 240 state standards in the product quality indicator system (SPKP) will be developed and approved this year. They embrace a majority of the most important types of machinebuilding products as well as a number of groups of similar products in other branches of the national economy. During 1986 and subsequent years, such union-wide state standards should be developed for all groups of similar products -- and there are more than 900 of them.

In this regard, it is necessary to keep in mind that groups of similar products are the sum total of items with a common functional purpose i.e. possessing a common list of purpose indicators. The methodological basis for separating these groups is the union-wide classifier of industrial and agricultural products that reflects the social division of labor, which has taken shape, and production specialization. Being the base for systematizing all of the products that are produced in the country, it insures a similar understanding of each classification grouping and provides an opportunity to accomplish the calculations that are required during different stages and at different levels in economic and branch planning.

Only the main and most important indicators, including the specific ones that describe the consumption of materials and energy, are included in the product quality indicator system standards. For example, such indicators as output, accuracy in machining items, the economic use of materials and electrical energy (specific weight, specific power and coefficient of useful work), reliability (mean time between failures and service life until the first overhaul), and unification have been provided in the approved state standard for the list of indicators for metal-working machine tools.

It is thought that the list of main indicators for technical level and quality should not be used only for the subsequent development of production standards. Having been prescribed in the product quality indicator system standards, it has been called upon to be a single and inherent one for standardization plans and programs, scientific and technical programs, plans for incorporating scientific and technical achievements in the national economy, and plans for the production of industrial items, and also for the development of progressive technical and economic norms and standards for all types of work and expenditures (savings) in labor, raw materials, materials and fuel and energy resources.

The state standards, which establish the list of quality indicators, are being developed in 1985 basically for the most important types of machinebuilding products -- hydraulic turbines, steam generators, diesel locomotives, railroad cars, transformers, flexibly automated production systems, cargo and passenger motor vehicles, buses, tractors, semiconductor devices, etc.

The state standards for groups of similar items with long-range indicators should become one of the initial factors in planning the introduction of scientific and technical achievements into the national economy and the expansion of industrial production (based on quality indicators). Their development is being carried out in accordance with the CPSU Central Committee and USSR Council of Ministers Decree "On Measures To Accelerate Scientific and Technical Progress in the National Economy."

Gosstandart and the State Committee for Science and Technology have established and approved the procedure for performing scientific research work to determine ways to expand the groups of similar products and to establish standards with long-range requirements on the basis of this. The latter should be formed during the earliest stages in the life cycle of items, i.e., during the composition or based on the results of the appropriate scientific, research and design work. The standards, which establish the long-range requirements for groups of similar products, will contain the best possible list of main indicators for their technical level and quality that are included in the union-wide state standards and product quality indicator system.

According to the state standardization plan for 1985, USSR ministries and departments must develop approximately 240 state standards with long-range requirements. They are creating them based on the social and economic tasks that have been defined by the Complex Program for Scientific and Technical Progress for the Next 20 Years; the indicators in the Main Directions for

Economic and Social Development During the 10 Years; special purpose complex scientific, technical, economic, and social programs; and the programs for the development of regions and territorial production complexes. In this regard, the scientifically and economically sound views of customers (clients), concerning the list, unification, technical level and quality of production are being taken more fully into account.

It is necessary to point out that certain ministries (the Ministry of Heavy and Transport Machine Building, Ministry of Construction, Road and Municipal Machine Building, Ministry of Chemical and Petroleum Machine Building, and the Ministry of Electrical Equipment Industry) have not fully embraced the most important types of machinebuilding products during the development of state standards with long-range requirements. This situation must be corrected in the very near future.

The establishment of the state standards is a new and complicated task. There is no doubt, however, that the procedure, which was established jointly with the State Committee for Science and Technology for forming them within the framework of scientific research work and testing and design work, for conducting examinations in State Committees for Science and Technology Commissions, and in the All-Union Patent Services Center in the State Committee for Inventions and Discoveries and for approval in Gosstandart will permit such union-wide state standards to exist for the most important types of machinebuilding products by the end of this year.

Union-wide state standards with long-range indicators are documents on the basis of which it is possible to reorganize and optimize the entire fund of norm and technical documents for items. We have in mind branch and republic standards and specifications for specific types of products. At the same time, the listing and values of the main indicators, which are fixed in them, should stand out in all the main program and planning documents that are in effect in the country, especially in the five-year and annual plans for economic and social development.

In this connection, it is necessary to direct attention toward the fact that the CPSU Central Committee and USSR Council of Minister Decree "On Improving Planning and Strengthening the Effect of the Economic Mechanism On Raising Production Efficiency and Work Quality" made it incumbent upon the industrial ministries, associations and enterprises to approve the main indicators for the technical level of production and the most important types of produced items in the five-year plans for economic and social development laid out by year.

This requirement can be realized in the 12th Five-Year Plan for the list of the most important machinebuilding items; and in the 13th -- for the entire list of products in the state plan for social and economic development. Let us point out that the list of groups of similar items, for which state standards with long-range indicators must be developed, is basically analogous to the list of products in the state plan.

A great deal of importance is being attached to the compilation of scientific and technical programs that provide for raising the technical level of groups of similar machinebuilding products based on building and mastering new equipment and the modernization of machines and equipment being produced. This is reflected in the statute on the procedure for compiling different levels of scientific and technical programs that was approved by the State Committee for Science and Technology, USSR Gosplan, the presidium of the USSR Academy of Sciences, USSR Gosnab, USSR Gosstroy, USSR Ministry of Finance, and USSR Central Statistical Administration. However, far from all of the programs, which have been accepted in the 12th Five-Year Plan, assume the realization of this requirement.

The fact that the State Committee for Science and Technology and Gosstandart have decided that ministries and departments -- when developing draft scientific and technical programs -- should outline tasks for their norm, technical and metrological support in them is a positive one. They will be included in the main tasks of the programs, which must be provided for in the state plan for social and economical development considering the necessary financing.

Based on the union-wide state standards with long-range requirements for groups of similar products, five-year plans for the standardization and metrological support of the national economy should be formulated as a component part of the five-year state plan for the country's economic and social development. It is necessary to realize these plans within the framework of the integrated standardization programs (PKS) that stipulate the standardization tasks for raw materials, materials and component items when solving the tasks of increasing the technical level and quality of the end product.

Despite the existing difficulties in part of the coordination of manufacturer and user requirements, the fulfillment of a significant number of these programs has provided a significant technical and economic effect according to the plan of the current five-year plan. Thus, the power of freight diesel locomotives increased from 6,000 to 8,000 horsepower. The load capacity of railroad cars -- from 63 to 68 tons; the productivity of excavating machines -- by 11 percent with a 7 percent decrease in the consumption of metal on the average. The productivity of loading mining equipment grew from 0.8 to 1 cubic meter a minute with an average decrease in the consumption of metal from 4.4 to 3.8 tons.

Together with the ministries and departments, Gosstandart will consistently perform complex standardization work during the 12th Five-Year Plan, during which it is planned to establish and realize 49 complex standardization programs. A standard with long-range requirements for the end product will be the main thing in each complex standardization program.

The list of main indicators and their values must be reflected in branch plans for developing science and technology and in the Quality programs. Each ministry, region and enterprise must have the latter.

The Ministry of Instrument Making, Automation Equipment and Control Systems and the Ministry of Electrical Equipment Industry have developed and are realizing

programs to increase the technical level and quality of products during the five-year plan and future years and Quality programs.

The experience acquired in realizing the first of these programs shows their great effectiveness. For example, the Ministry of Instrument Making, Automation Equipment and Control Systems and the Ministry of Electrical Equipment Industry have achieved good indicators. The proportion of items with the highest category of quality has reached 45.1 and 48.8 percent, respectively, in the overall volume of these ministries' marketable products.

In this regard, it is important to achieve complete interconnection between the branch plans for the development of science and technology and the Quality programs. They must supplement and not duplicate each other so that the volume and time indicators for achieving a world level of the items will be concretely defined for all branch products.

The scientific and technical plan, which is formulated based on scientific and technical programs and social and economic development plans, contains the branch tasks mainly for the mastery of new items. In addition, the task of a planned increase in the technical level of serially produced items and bringing them to a high level of being able to compete and to effective use in the national economy is no less labor-consuming and larger scale. The main role in the planned and regulated process is assigned to the Quality programs.

In the aggregate, the plans for developing science and technology and the Quality programs have been called upon to establish specific tasks in achieving the world level of all the products in a branch, each association and enterprise. This set of planning tools will permit the proportion of items in the highest quality category to be objectively determined. It is no secret that they are now being planned from what has been achieved, and it is necessary to plan them proceeding from the technical level and quality indicators that correspond to the world level of specific types of products and that are based on the time of achievement.

It is all the more important that the tasks for increasing the percentage of items in the highest quality category within their overall volume be a component part of the plans for raising the quality of industrial products and be one of the most important criteria in evaluating the production activity of enterprises and branches.

A new certification procedure, which is stricter in evaluating the level of certified items, has been in effect for two quality categories since 1 July 1984. Products in the highest quality category must correspond to world level technical and economic indicators. Items which have not been certified for the highest and first categories are subject to removal from production. USSR Gosplan has been granted the right only in exceptional circumstances to permit the continued production of such products for a period of no more than two years with the agreement of the State Committee for Science and Technology.

The inclusion of quotas for the percentage of items with the highest quality category within their overall volume in the five-year plans for economic and social development has a considerable effect on raising their technical level and quality. There are, however, frequently cases where these quotas are fulfilled at the expense of secondary products to the detriment of items that have the most important national economic significance. That is why it is advisable for USSR Gosplan and Gosstandart-- with the participation of the industrial ministries -- to examine the possibility of including in economic and social development plans quotas for the proportion of products with the highest quality category not only for branches in general but also for groups of the most important items. It is also necessary to link the certification periods with the product modernization periods. It is necessary to develop the appropriate standards for this.

The realization of these measures will permit:

An increase in the controlling effect of the norm and technical document fund on the technical level and quality of the produced products;

A broader shift in planning to quotas not for individual units and machines but for machine systems;

The differentiation of indicators and deductions (in the state budget, material incentive funds, etc.) depending on the level of innovation in the equipment (we have in mind fundamentally new, modernized, etc.);

The advance use in planning targets of product prices that stimulate technical progress;

The more purposeful financing of both the construction of new enterprises and the technical re-equipping of existing ones in order to achieve the specific technical level and quality indicators of the products that are being manufactured or that are planned for production;

An earnest shift to the solution of the important task that faces economic science today -- the sound selection of effective technical and economic indicators during the planning of socialist public production.

As a result, the realization of these measures will contribute to improving the system of national economic plans and will create the preconditions for their greater orientation toward increasing the technical level and quality of products being produced.

#### FOOTNOTES

1. "Materialy vneocherednogo Plenuma Tsentralnogo Komiteta KPSS 11 marta 1985 [Materials of the Special 11 March 1985 CPSU Central Committee Plenum], Moscow, Politizdat, 1985, p 10.
2. V. I. Lenin "Polnoye sobraniye sochineniy [Complete Works] Vol 36, p 205.

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